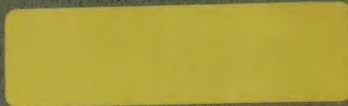


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TODAY TOMORROW



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Calgary, Alberta  
T2C 1A5  
Canada

TODAY



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# TOMORROW



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All figures in this annual report are in Canadian dollars unless otherwise noted.

A Caterpillar 311B excavator in silhouette as it works on a tunnel for a new subway line in Santiago, Chile.





**Finning International Inc. sells, rents, finances and provides customer support services for Caterpillar equipment and engines and complementary equipment in Western Canada (BC, Alberta, Yukon and the Northwest Territories), the United Kingdom and South America (Chile, Argentina, Uruguay and Bolivia\*).**

**In 2002, the Company achieved record net income, despite soft economic conditions in which revenues decreased slightly. This strong bottom-line performance was a result of the successful execution of three corporate objectives: geographic diversification, revenue stream diversification and financial management measures that increased return on assets.**

**The most significant event of 2002 was the announcement in November of the Company's agreements to acquire the Caterpillar dealerships in Argentina, Uruguay and Bolivia. Finning International now operates throughout the Southern Cone of South America.**

## **TODAY**

## **TOMORROW**

**The Company will continue to lever the Caterpillar brand name and provide unrivalled services that earn customer loyalty. Finning's market share in such sectors as oil sands mining and pipeline construction in Canada and copper mining in Chile positions the Company to grow significantly in the future. The new acquisitions in South America bring Finning an opportunity to participate in the recovery and expansion of the construction and resource sectors in those countries. Additional and ongoing growth will be in all product and core industry segments and will include acquisitions in core markets.**

**Return on equity increases will result from continued improvement in asset efficiency; adoption of new technologies to manage the business more effectively; closure of less profitable branches; selective investment in high-growth and high-profit businesses; cost reduction through centralization of support services; and lower tax rates as the majority of revenue growth comes from lower taxed jurisdictions.**

The Company's Head Office is located in Vancouver, British Columbia, Canada. Finning International Inc. ([www.finning.com](http://www.finning.com)) is a public company listed on the Toronto Stock Exchange. The acquisition of Bolivia had not closed as of the date of printing of this annual report.



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**TODAY**

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A Caterpillar 311B excavator in silhouette as it works on a tunnel for a new subway line in Santiago, Chile.



15%

Revenue growth

20%

Return on equity

30%

Minimum

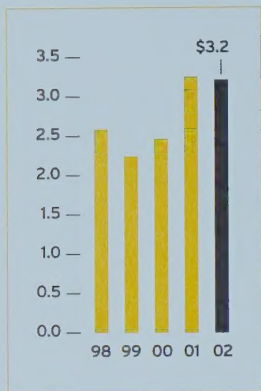
Market share in all sectors

## **TOMORROW**

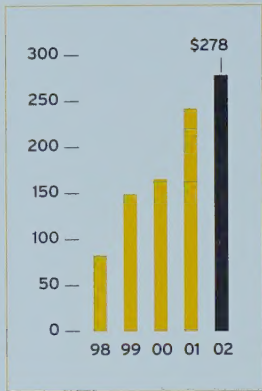
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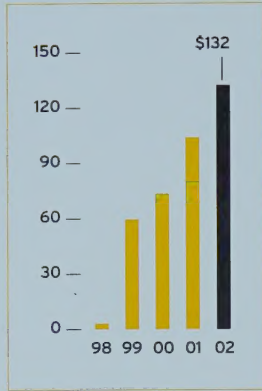




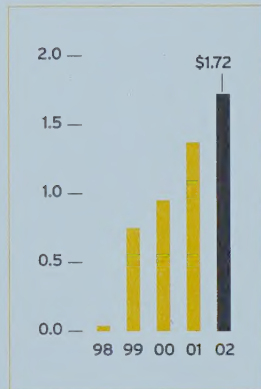
Revenue  
\$ (BILLIONS)



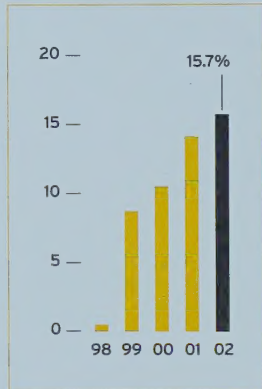
EBIT  
(Earnings Before Interest and Taxes)  
\$ (MILLIONS)



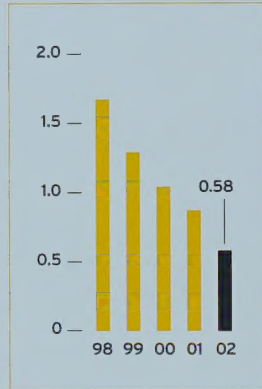
Net Income  
\$ (MILLIONS)



Basic EPS  
(Earnings Per Share)



Return On Equity  
(PERCENTAGE)



Debt To Equity



Relative Price Performance  
Finning International Inc. vs. S&P/TSX Composite Index  
(JANUARY 1, 2002 TO DECEMBER 31, 2002)



### Finning International Inc.:

Agreed to acquire the Caterpillar Inc. dealerships in Argentina, Uruguay and Bolivia for \$51 million plus the assumption of \$51 million of debt.

Achieved the largest single transaction in its history with a \$283 million equipment sale and customer support service contract with Albion Sands Energy Inc. in Alberta.

Sold 19 properties in Western Canada for \$79 million and entered into long-term leases with the purchaser.

Sold substantially all its Canadian conditional sales contract portfolio to Caterpillar Financial Services Limited and securitized a portion of its accounts receivable portfolio. Proceeds were \$120 million in 2002, with an additional \$70 million expected in 2003.

Through its U.K. subsidiary Hewden Stuart Plc divested its Tower Cranes business as part of the Company's plan to sell non-core assets. Concurrently, Hewden acquired the majority of the remaining assets of Maxxiom Limited for \$44 million.

Acquired 36.9% of Maxim Power Corp., a Calgary-based independent power producer, for \$15 million, and Diperk, the Chilean representative for two Caterpillar product lines, Perkins Engines and FG Wilson.

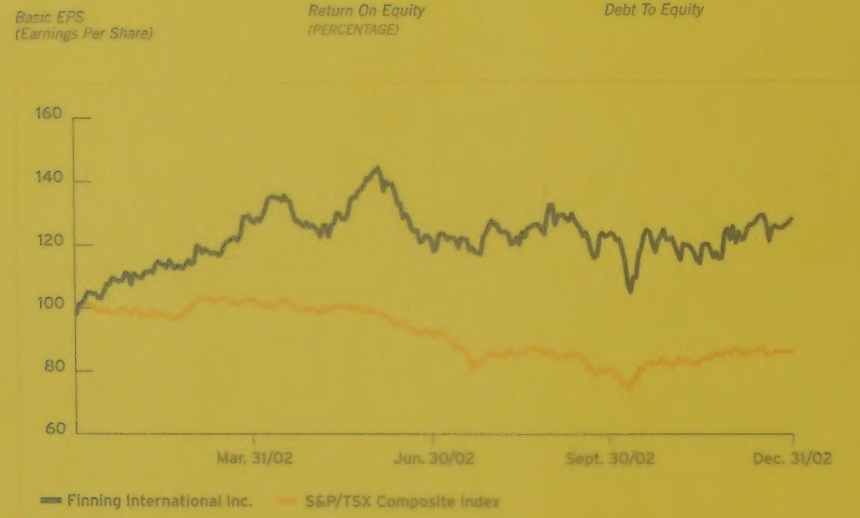
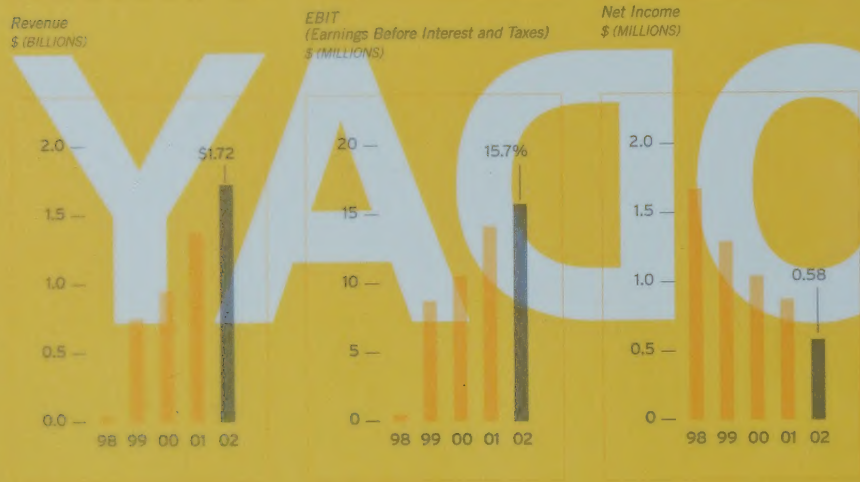
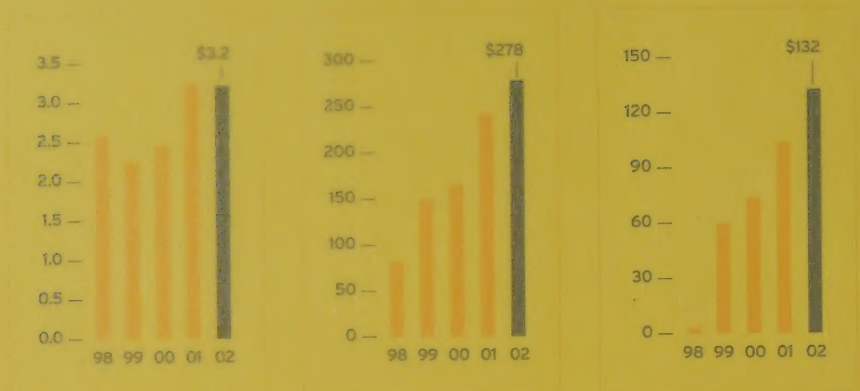
Through Finning Chile, completed two transactions with Codelco Chile valued at \$39 million, involving delivery of two new CAT 797B Series off-highway trucks and renewal of a two-year maintenance and repair contract covering 29 pieces of equipment.

Increased its annual common share dividend twice during 2002, and again in January 2003, the first increases since 1995. The dividend is now \$0.09/quarter.

Received approval from the Toronto Stock Exchange to purchase up to 10% of its public float during the period December 3, 2002 to December 2, 2003.



# PERFORMANCE AT A GLANCE



Relative Price Performance  
Finning International Inc. vs. S&P/TSX Composite Index  
(JANUARY 1, 2002 TO DECEMBER 31, 2002)



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PRESIDENT'S REPORT

Finning International achieved record net income in 2002. This excellent performance was accomplished by employees throughout the Company successfully implementing our strategic plan.

The Company's revenues of \$1.21 billion in 2002 compare with \$1.25 billion in 2001. Revenues were essentially flat as commodity prices and general economic activity were fair to poor in our markets – Western Canada, the United Kingdom and Chile.

However, our net earnings were \$132.3 million (\$1.72 per share), compared with 2001 net earnings of \$103.9 million (\$1.37 per share). This dramatic increase reflects the success of a number of initiatives undertaken before and during 2002.

**GEOGRAPHIC  
DIVERSIFICATION**

The 2002 achievement likely to have the biggest impact on the Company going forward is our agreement to acquire Caterpillar dealerships in Argentina, Uruguay and Bolivia. These acquisitions add to our geographic diversification, which reduces our exposure to economic cycles that inevitably occur in specific countries and industries.

The significance of the South America acquisitions becomes obvious with one glance at the map on page 23. After successfully increasing revenue and earnings performance in Chile since Finning acquired the CAT dealership there a decade ago, we can now apply the same strategies to almost the entire Southern Cone of the continent.

**REVENUE STREAM  
DIVERSIFICATION**

In 2002, we continued our strategy of reducing our revenue dependence on sales of new and used equipment and increasing the proportion of revenue from rental, parts and service. The result was a gross margin on revenues of 29.9% compared with 27.9% earned in 2001.

Our transition toward a customer service culture throughout the entire Company is continuing, and we believe the major share of the financial gains from this strategy is still to be realized. Our customer support service initiatives are outlined on Page 28.



The increase in rental revenue has come primarily from our growing Hewden Stuart subsidiary in the U.K., acquired in 2001, and from the successful expansion of our CAT rental stores in Western Canada and Chile. Economic conditions have also prompted some customers to rent heavy equipment until their business improves enough to make purchase viable.

#### **IMPROVED RETURN ON ASSETS**

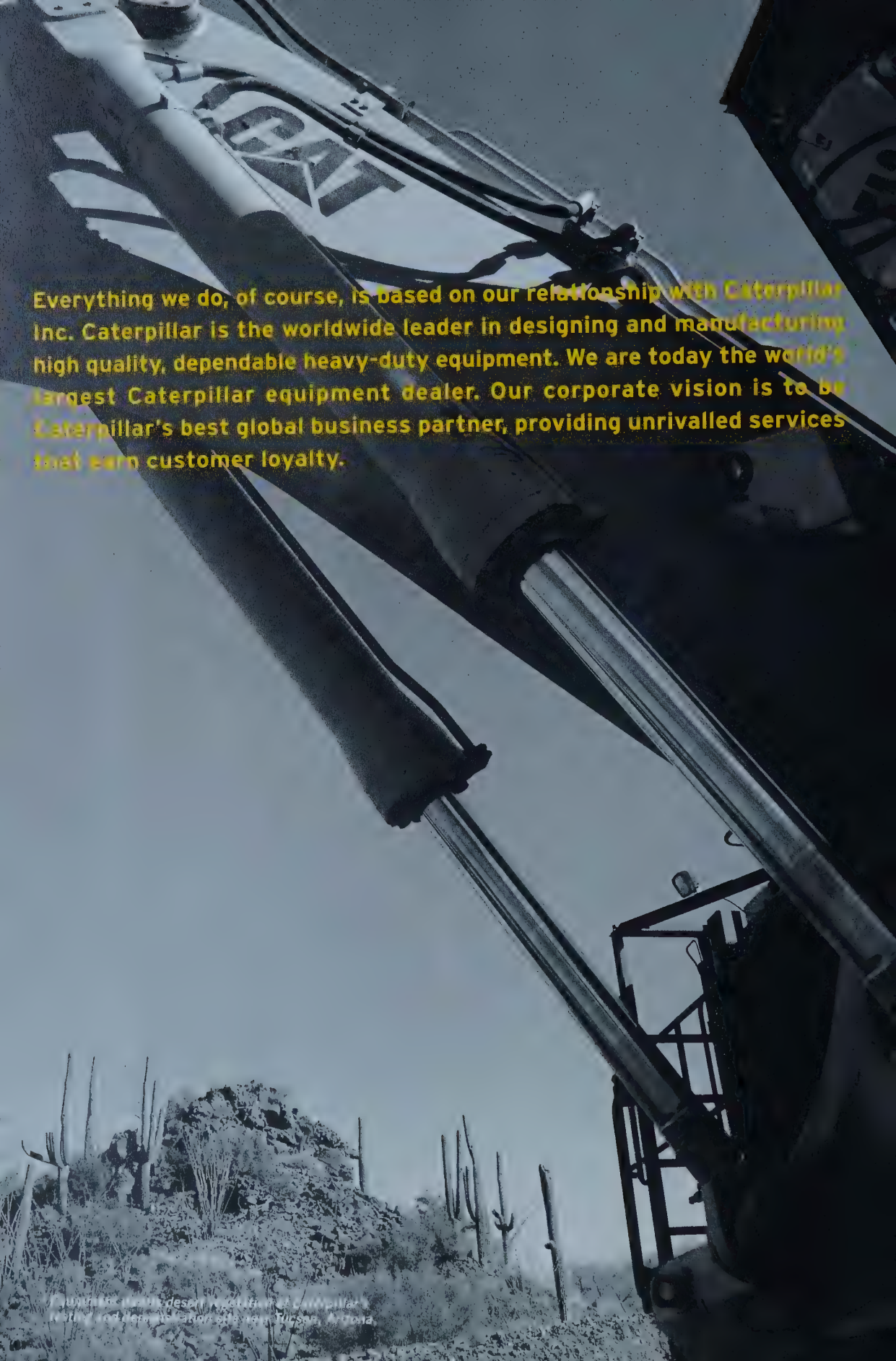
We undertook several initiatives in 2002 to continue to improve the returns we generate with our assets. In January, the Company concluded a \$79 million sale and leaseback transaction in which we sold a number of our Canadian properties and entered into long-term leases with the purchaser. In October, our Hewden Stuart subsidiary sold its Tower Cranes business because it did not fit the strategic growth plan.

In addition, in December we sold substantially all our Canadian conditional sales contract portfolio to Caterpillar Financial Services Limited and securitized a portion of our trade receivables for combined proceeds of \$120 million.

These and other initiatives taken during the year improve our return on existing assets and strengthen our balance sheet to enable us to pursue new acquisitions and seize other growth opportunities in core businesses.

We welcome our new colleagues in Argentina, Uruguay and Bolivia. After some tough economic times, we believe these countries are now poised for years of growth and prosperity. Finning appreciates having the opportunity to contribute to this exciting future.

The year's excellent performance could not have been attained without the hard work and talent of our employees throughout the Company. I also want to add my personal thanks and gratitude to our Board of Directors.



Everything we do, of course, is based on our relationship with Caterpillar Inc. Caterpillar is the worldwide leader in designing and manufacturing high quality, dependable heavy-duty equipment. We are today the world's largest Caterpillar equipment dealer. Our corporate vision is to be Caterpillar's best global business partner, providing unrivalled services that earn customer loyalty.

*Our machine design is based on Caterpillar's  
leading technology and standards. Tucson, Arizona.*



## PRESIDENT'S REPORT

**TOMORROW**

We expect to deliver another strong bottom-line performance in 2003, despite anticipating another year of challenging economic conditions.

Over the longer term, additional strategic initiatives combined with economic growth and stable commodity prices will position the Company to benefit accordingly.

We have set a number of challenging objectives for 2003 and the years that follow, including:

- A long-term revenue growth rate of 15% a year. We did not meet this goal in 2002 and we will be hard-pressed to meet it in 2003. However, we did perform at this level throughout the 1990s, and we are confident we will return to this growth rate when business cycles improve over the medium term.

- A long-term return on equity rate of 20% a year. In 2002, our return on equity was 15.7%, compared with 14.1% in 2001. We anticipate increasing ROE 1% each year through 2006.

- A market share of 30% in all our markets. We exceed this objective now in most markets, but we intend to reach this target in all our sectors.

We are determined to continue to build value for our shareholders by enhancing our reputation as a Company that sets goals and achieves them.

Douglas W.G. Whitehead  
President and Chief  
Executive Officer  
March 26, 2003



**Finning International alcanzó ingresos netos récord en el año 2002; excelente resultado logrado por los empleados mediante la exitosa implementación por la compañía de nuestro plan estratégico.**

Las ventas de la compañía de \$3,21 mil millones de dólares en 2002 son comparables a los resultados de 2001, de \$3,25 mil millones de dólares. Las ventas se mantuvieron esencialmente planas, mientras los precios de materias primas y la actividad económica general se mantuvieron entre regulares y bajos en nuestros mercados (Canadá occidental, el Reino Unido y Chile).

No obstante, nuestras ganancias netas fueron de \$132,3 millones de dólares (\$1,72 por acción), comparado con los resultados de 2001 de \$103,9 millones de dólares (\$1,37 por acción). Este aumento dramático refleja el éxito de una cantidad de iniciativas emprendidas antes y durante el año 2002.

**DIVERSIFICACIÓN  
GEOGRÁFICA**

El logro de 2002 que posiblemente tendrá el mayor impacto en el avance de nuestra compañía es el acuerdo que concretamos para la adquisición de representaciones Caterpillar en Argentina, Uruguay y Bolivia. Las mismas aumentan nuestra diversificación geográfica, reduciendo nuestra exposición a ciclos económicos que ocurren inevitablemente en países e industrias específicas.

La importancia de las adquisiciones de América del Sur es aparente con un simple vistazo al mapa que se encuentra en la página 21. Después de aumentar exitosamente las ventas y ganancias en Chile tras la adquisición de la representación de CAT hace una década, podemos ahora aplicar la misma estrategia en casi todo el Cono Sur.

**DIVERSIFICACIÓN DE LAS  
FUENTES DE INGRESOS**

Durante 2002, continuamos con la estrategia de reducir nuestra dependencia de ingresos provenientes de ventas de equipos nuevos y usados, y aumentar la proporción de ingresos mediante el negocio de arriendo, repuestos y servicio técnico. El resultado fue un margen bruto de ventas del 29,9%, comparado con un 27,9% logrado en el año 2001.

Nuestra transición hacia una cultura de servicio al cliente en toda la compañía continúa, y consideramos que la porción mayor de los beneficios financieros de esta

estrategia no se ha logrado aún en su totalidad. La descripción de nuestras iniciativas de soporte al cliente se encuentra en la página 28.

El aumento de ingresos derivados del negocio de arriendo proviene principalmente de nuestro subsidiario Hewden Stuart en el Reino Unido, adquisición hecha en 2001, como así también de la exitosa expansión de los Cat Rental Stores en el oeste canadiense y en Chile. Asimismo, las condiciones económicas han obligado a algunos clientes a arrendar maquinaria pesada hasta que sus negocios mejoren lo suficiente como para posibilitar una compra.

mejoran el retorno sobre activos actuales y fortalecen nuestro balance, permitiéndonos realizar nuevas adquisiciones y aprovechar otras oportunidades de crecimiento en los principales negocios.

Les damos la bienvenida a nuestros nuevos colegas en Argentina, Uruguay y Bolivia. Después de una fase económica difícil, confiamos en que estos países emprenderán un camino de crecimiento y prosperidad durante los próximos años. Finning agradece la oportunidad de contribuir a este futuro emocionante.

El excelente rendimiento de este año no podría haberse logrado sin el trabajo arduo y el talento de nuestros empleados en toda la empresa. Quisiera también agregar mi agradecimiento personal a nuestro directorio.

#### **NUESTRA RELACIÓN CON CATERPILLAR INC.**

Naturalmente, todo lo que hacemos está basado en nuestra relación con Caterpillar Inc. Caterpillar es el líder mundial en el diseño y la manufactura de maquinaria pesada de alta calidad y confiabilidad. Hoy somos el mayor distribuidor de maquinaria Caterpillar en el mundo. Nuestra visión corporativa es ser el mejor socio de negocios de Caterpillar, entregando servicios incomparables que nos harán merecedores de la lealtad de nuestros clientes.

#### **EL MAÑANA**

Para 2003, esperamos lograr resultados fuertes en nuestra última línea, a pesar de enfrentar otro año de condiciones económicas desafiantes.

A largo plazo, iniciativas estratégicas adicionales, combinadas con crecimiento económico y precios de mercado estables, posicionarán a la compañía para su consiguiente beneficio.

Hemos establecido un número de objetivos desafiantes para 2003 y los años venideros que incluye:

- Un crecimiento a largo plazo en ventas de un 15% anual. En 2002, no logramos este objetivo y nos apremiará alcanzarlo en 2003. No obstante, sí logramos este nivel en la década de los 90, y confiamos que retornaremos a este porcentaje de crecimiento en cuanto mejoren los ciclos de negocios en el mediano plazo.

- Un retorno sobre capital de un 20% anual. En 2002, nuestro retorno sobre capital fue de un 15,7%, comparado con un 14,1% en 2001. Anticipamos un crecimiento de un 1% cada año hasta 2006.

- Una participación de mercado del 30% en todos nuestros mercados. En la actualidad, estamos excediendo esta meta en la mayoría de nuestros mercados, y es nuestra intención lograr esta cifra en su totalidad.

Nuestra meta es continuar aumentando el valor para nuestros accionistas al realzar nuestra reputación como compañía que se fija metas y las logra.



Douglas W.G. Whitehead  
Presidente y C.E.O.  
26 de marzo de 2003

#### **MEJORA EN EL RETORNO SOBRE ACTIVOS**

Emprendimos varias iniciativas en 2002 para continuar mejorando los retornos generados por nuestros activos. En el mes de enero, la compañía completó una transacción de venta y retroarrendamiento de \$79 millones de dólares, en la que vendimos una parte de nuestras propiedades canadienses y entramos en arrendamientos a largo plazo con el comprador. En octubre, nuestra subsidiaria Hewden Stuart vendió su negocio de Tower Cranes ya que no calzaba en el plan de crecimiento estratégico.

Adicionalmente, en diciembre, vendimos casi todo el portafolio canadiense de contratos de ventas condicionales a Caterpillar Financial Services Limited y aseguramos una porción de nuestras cuentas por cobrar por una recaudación combinada de \$120 millones.

Estas y otras iniciativas tomadas durante el año,





Mechanic checks out Caterpillar 797B truck, one of 23 sold to an Alberta oil sands contractor and part of the largest transaction ever by Finning (Canada).

Revenue from customer support services hit record levels in 2002. New equipment sales declined slightly in 2002 principally as a result of lower activity levels in the oil and gas sectors, and resulted in Finning (Canada) overall revenue declining after two record years in 2001 and 2000.

The year's largest transaction, and the largest single transaction in the history of Finning (Canada), was an equipment sale and customer service contract with Albian Sands Energy Inc. The sale included 23 Caterpillar 797B trucks and 28 pieces of Caterpillar support equipment valued at over \$130 million. The equipment is being delivered over 18 months. The five-year equipment parts and maintenance contract is valued in excess of \$150 million, more than the value of the equipment delivered, which is significant proof of the success of our business strategy.



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FINNING (CANADA)



*Ian M. Reid  
President and Chief  
Operating Officer*

Along with the equipment fleets at Syncrude and Suncor, Finning (Canada) has placed and now supports the biggest concentration of Caterpillar 797s (the industry's largest production mining truck) that exists anywhere in the world.

Western Canada oil and gas drilling activity declined by 20% during 2002, significantly reducing the demand for road-building and site-preparation machines as well as for engines to power rigs and related equipment.

A strong performance came from the construction sector. Privatization of highway maintenance in Alberta and British Columbia has provided us with the opportunity to supply new fleets of equipment to private contractors. These private contractors have learned from experience that they benefit from buying quality equipment with accompanying multi-year maintenance contracts. We have won a large share of this market for small wheel loaders and motor graders, and we expect this market to remain strong. In addition, the Alberta economy has led Canada in growth, which resulted in strong demand for residential construction. This in turn drives much

of the demand for Caterpillar excavators, scrapers, tractors, wheel loaders and paving equipment.

Despite numerous challenges in the Western Canada forest industry, Finning experienced one of the strongest showings in decades in forestry for 2002. A combination of a dedicated industry team, purpose-built machines and a need for the forest companies and contractors to improve efficiency has resulted in our highest market share in many years.

The execution of our entry into rental services continued on track. At year-end, we had 12 "CAT The Rental Store" operations throughout British Columbia and Alberta, an increase from seven stores at year-end 2001. These stores vary in size from five to 19 employees and from annual revenues of \$750,000 to \$3 million depending on location. Our target market is general and industrial contractors. Equipment available for rent at these stores ranges in size from small hand tools to small and medium-size Caterpillar construction equipment.

The Canadian diamond industry continues to expand with the opening of Diavik, the second major mine in the Northwest Territories, providing the market potential for major fleets of equipment as well as for power generation equipment. Finning designed, built and operates the main powerhouse for both of Canada's major diamond mines.

## TOMORROW

**Oil sands customers are our largest single source of revenue. Production in the oil sands was approximately 800,000 barrels per day in 2002 and is forecast to reach one million barrels per day in 2003\*. Finning (Canada) has a 60% market share in heavy equipment in the oil sands and will benefit from this production increase. The recent uncertainty concerning the Federal Government's ratification of the Kyoto Accord may impact the timing of projects and some new players entering the industry. It is not expected to significantly affect the current or future plans of the larger established companies.**

Consensus forecasts indicate a return to record activity levels for conventional oil and gas drilling in Western Canada in 2003. Caterpillar equipment is used in the construction of roads to access drilling locations. In addition, a large number of drill rigs are powered by Caterpillar engines. The nature of this business requires frequent equipment movement, and Caterpillar engines have won the major market share of the large truck business.

Longer term, we are focused on the construction of a pipeline to bring natural

gas from the Arctic through Western Canada to the United States. Pipeline activity presents opportunity for large fleets of tractors, excavators and pipelayers as well as significant opportunity for large Caterpillar engines installed in gas compression stations throughout the length of the pipeline.

Once again, in 2003, Edmonton, Vancouver and Calgary are forecast to be among the fastest growing cities in Canada. Continued economic strength in these locations and in many of the industries we serve should present significant opportunities for Finning (Canada) over the next year and beyond.

\* source: Canadian Association of Petroleum Producers

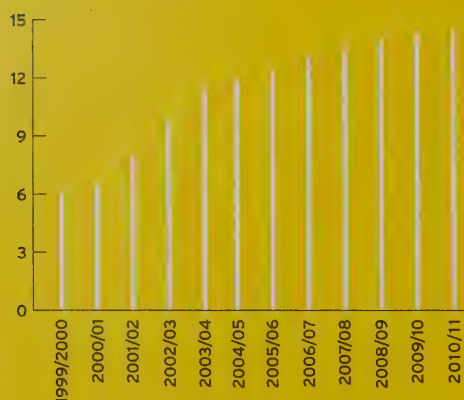


## FINNING (UK)

Activity remained strong in all our major markets in 2002, heavily influenced by the government's infrastructure spending, despite the overall U.K. economy experiencing a mild downturn. Revenue was slightly higher at \$328 million.

Our bottom line was improved by an increase in the proportion of our business that comes from customer service versus equipment sales. In 2002, 37% of machines sold included a customer support contract. In addition 48% of engines sold into the growing landfill gas industry included a customer support contract.

£180 billion  
Government Infrastructure Investment to 2011  
£ billion cash



Stephen Mallett  
Managing Director

One of our strongest markets was the materials handling industry, in which our market share increased for the fourth successive year. This is largely a rental business for us, with parts and maintenance service contracts being a key component.

Another strong market is the landfill and waste recycling industry, in which we have the leading market share. In particular, our six-year agreement to supply equipment and maintenance

services to Biffa, the U.K.'s largest single supplier of waste management services, generated revenue of \$4.4 million in 2002.

Our solid market share and customer relationships in the quarry industry, which produces aggregate foundations for road building and other construction sectors, are reflected in strong sales for our loading and haulage equipment. The housing market has also remained active, driven by government infrastructure spending, low interest rates and a recognized lack of housing in many parts of the U.K.

Our used equipment revenue in the construction industry was 15% higher than in 2001. Used sales are an important component of our business because we need to take trade-ins from customers on new equipment sales, then resell this equipment profitably.

Since the used equipment market in the U.K. is traditionally small, we have established relationships with large used equipment dealers in the Middle East and the United States, where demand was particularly strong in 2002.

We have also taken measures to improve our inventory management of used equipment, which has reduced our capital requirements for this activity.

## TOMORROW

In 2003, we expect revenues to be similar to 2002 in all our markets. The U.K. economy is expected to improve in 2003, leading the major Western European countries, according to projections of the Organization of Economic Co-operation and Development (OECD). Public infrastructure spending is expected to increase by another 6.9% in 2003, after an 11.5% increase in 2002.

We expect to continue increasing the customer service contribution to our revenue in 2003 and beyond. Our goal over the next two years is to generate 30% of our revenue from customer service contributions. To achieve this, we will need to increase customer service revenue by 15% through 2003 and 2004.

To reach this objective, we are investing in the people and systems that will bring a stronger customer service culture inside the Company and a more focused marketing program to our existing and new customers.

The materials handling sector remains one of the most significant growth areas for future acquisition opportunities.



# TOMORROW



U.K. government infrastructure spending makes work for this Caterpillar 320B excavator and other CAT equipment on a highway construction project in North Kent.





Hewden increased its market share in 2002 to approximately 22% through a combination of organic growth and acquisitions in its first full year since being acquired by Finning International in January 2001. Revenue in 2002 increased only slightly in the face of a downturn in the U.K. economy.

Hewden is the largest equipment rental company in the country, with 353 depots and 3,813 employees, providing everything from wheelbarrows to wheeled excavators to individuals and companies of all sizes in all business sectors.

Our inventory exceeds 250,000 pieces of equipment. Caterpillar equipment was introduced to the product line in 2001. The Caterpillar inventory has reached 1,296 pieces of equipment and continues to grow. Maintenance on the Caterpillar equipment is performed under contract by Finning (UK).

*Hewden Stuart's wide range of rental equipment, including over 1,200 Caterpillar machines, is offered from 353 locations throughout the United Kingdom.*

from the traditional rental business into that of a sub-contract supplier business.

Rental of mobile cranes remains a key business sector for Hewden. The Company invested more than \$20 million and added 33 new mobile cranes to the fleet in 2002. This outlay is the largest single equipment investment in the history of Hewden and the largest of any crane rental company in the U.K. in 2002.

Hewden has also been successful in growing beyond the traditional scope of the equipment rental business by contracting to manage, operate and maintain the equipment fleets of large and medium-sized companies operating in various industrial and public sectors.

Hewden's diverse and growing customer base includes leading companies in the construction, oil and gas, power generation, water management and chemical industries, independent contractors serving a wide range of industries, and various government agencies.

All Hewden depots now have access to computer systems for the generation of contracts and management of data. Other internal procedures implemented during 2002 to increase productivity and improve sales included outsourced "internal" audits to ensure that "best operating practices" are followed at all depots.

#### **TOMORROW**

Hewden has a market share objective of 30% and 500 depots, which the Company intends to achieve by continuing to be the most active consolidator in the U.K.'s highly fragmented equipment rental industry.

We have identified numerous rental companies as potential acquisitions. Many small rental companies are suffering from the slow economy, allowing Hewden to value prospective acquisitions at favourable purchase prices. Each potential acquisition must bring strategic components that complement Hewden's business plan, such as technology, location, skilled equipment operators and/or market sector.

One of the Company's challenges is the recruitment of personnel to accommodate its growth. Hewden's objective is to become the "employer of choice".

Another priority to accommodate Hewden's growth is enhanced information technology that will help the Company manage its assets and locations and also maintain close real-time relationships with its customers.

During 2002 Hewden Hire Centres featured a wide range of Caterpillar sales merchandise at 8 depots, and this successful pilot will be influential in on-going Hire Centre development.

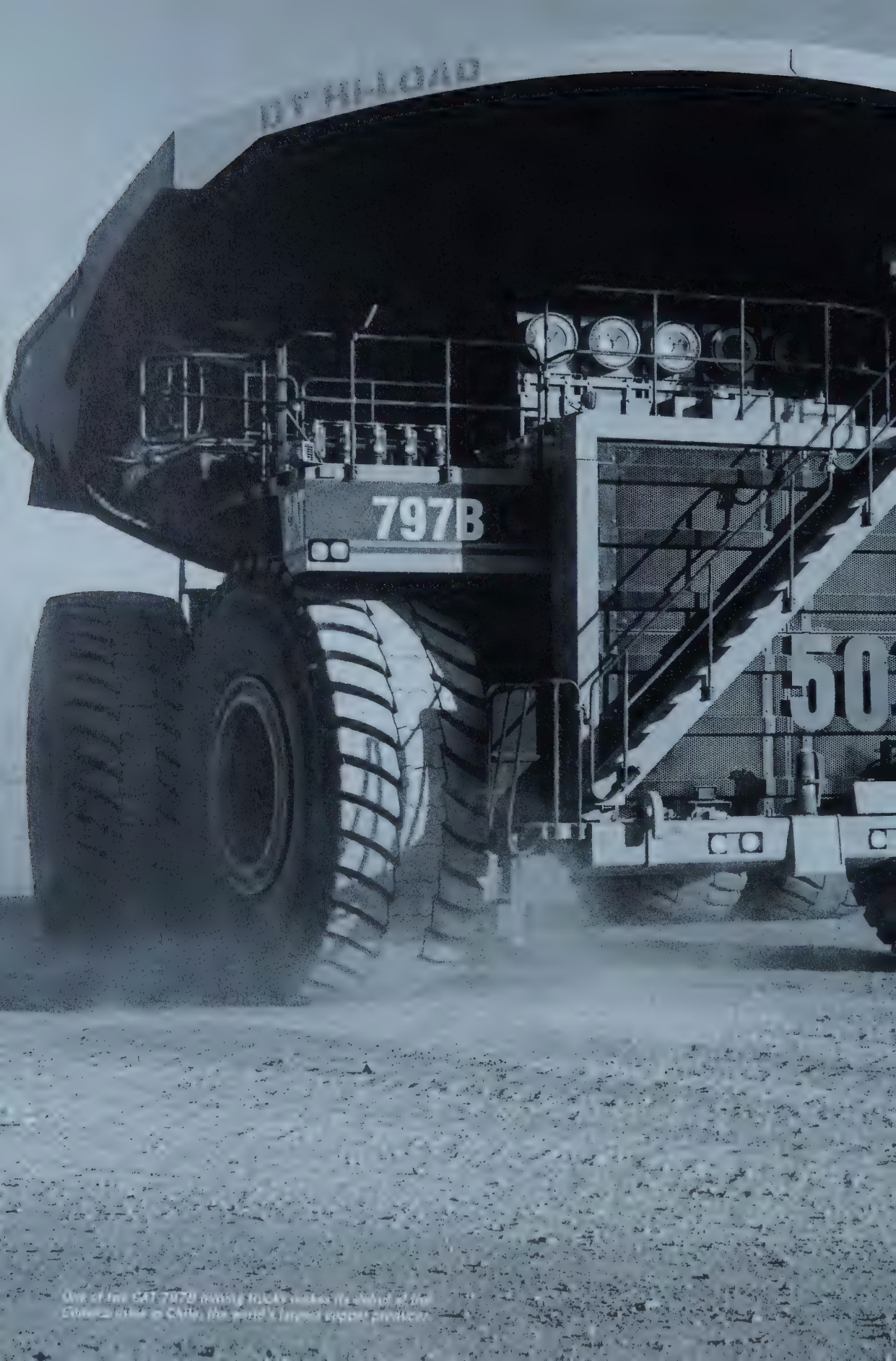
During the year we continued to focus on growing our core business, both organically and through acquisitions. In September, Hewden purchased the majority of the remaining assets of Maxxiom Limited for \$44 million. This acquisition not only added to the core rental portfolio, but also increased the Company's market share in the areas of passenger and goods hoists, modular accommodation and communications equipment, and further extended Hewden's geographic network of depots.

In October, Hewden announced the sale of Hewden Tower Cranes, as part of the Company's plan to sell assets outside its core markets. The business model for this unit had changed



*Paul J.C. Jarvis  
Chief Executive*





BY HI-LOAD

797B

50

One of two CAT 797B mining trucks makes its dump at the  
Escondido mine in Chile, the world's largest copper producer.

Finning Chile achieved significant increases in high-margin activities such as customer support services and equipment rental in 2002, while year-over-year revenue remained flat in the face of the continuing soft Chilean economy.

The economy was affected by another year of depressed prices for copper, the country's most important economic driver. Chile is the world's largest and lowest-cost producer of copper, and production was down about 5% during 2002.

This production decline did not significantly curtail activity as many mines took advantage of the opportunity to move overburden and other materials to prepare new low-cost sections of their ore bodies for production. Since Finning Chile has approximately 60% of the equipment market in the country's copper mines, CAT trucks and loaders were involved in much of this activity.

Finning Chile completed two important transactions with Codelco Chile, wholly owned by the Chilean State and the largest single copper producer in the world, accountable for 15.9% of global production. One of the transactions involved delivery of two new CAT 797B Series off-highway trucks. This delivery represents the introduction of the 797 trucks, the largest of CAT's product line, to Codelco. These trucks went to Codelco's Chuquicamata operation, and are being supported by a comprehensive maintenance package.

The second Codelco transaction was an agreement with the Radomiro Tomic mine, part of the new Codelco Norte Division, for a two-year renewal of its maintenance and repair contract. The contract covers 29 pieces of equipment, including 13 CAT 793B trucks. This is in addition to other existing contracts with Codelco Radomiro Tomic, which cover a total of 46 machines.



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year-over-year revenue remained flat in the face of the continuing soft such as customer support services and equipment rental in 2002, while Finning Chile achieved significant increases in high-margin activities





FINNING CHILE



Nicholas B. Lloyd  
President and  
Chief Executive Officer

One of the new services Finning Chile offers its mining customers is driver training using a fully computerized cab simulator. The simulator allows operators to acquire and practice the skills needed to safely and efficiently operate large CAT off-highway trucks and wheel loaders, including the CAT 797B. The

simulator can be delivered to mine sites, reducing the time spent in training as well as the costs associated with using real equipment for this purpose. In addition, the simulator can train an operator to handle situations that would be impossible or hazardous to simulate in the field.

During the year, Finning Chile adopted a more aggressive position in the construction and forestry sectors, resulting in improved revenue performance and a significant increase in market share. With the combination of slow economic growth and surplus supply, these markets have become extremely competitive over the last few years. Two important deliveries during the year were made to Empresa Constructora Belfi S.A. and the Mexican company Tradeco. This equipment, consisting of a total of 15 units, is destined primarily for ongoing road and infrastructure improvements in central Chile. This was the first time that Belfi has chosen Finning over other suppliers, which demonstrates our determination to increase our market share in the construction and forestry sectors.

Finning Chile saw increased activity in the equipment rental market through its branches and its new CAT Rental Store concept. The first CAT Rental Store in Santiago is steadily increasing market share. In November, a second store was opened in Calama, located in northern Chile in one of the region's most important mining areas.

Activity near Calama is increasing dramatically with Codelco expanding its Chuquicamata mine, one of the largest open-pit mines in the world, to include the area occupied by the original mine town site. The decision means the town's residents have to be relocated to the nearby city of Calama. Finning Chile's CAT Rental Store and its nearby Antofagasta branch will benefit from this activity.

**TOMORROW**

Chile has one of the most competitive economies in the world, ahead of many developed countries and all of the Latin American economies.

After strong growth through most of the 1990s, Chile's economy slowed to GDP growth of 2.8% in 2001 and approximately 2% in 2002. The government is forecasting growth exceeding 3% in 2003, even if copper prices remain at current levels. Chile has successfully negotiated a free trade agreement with the European Union and is currently negotiating a similar relationship with the United States.

In 2003, Finning Chile expects modestly higher revenues, with high-margin activities continuing to improve bottom line performance. We expect to continue to win market share in the construction and forestry sectors. The mining sector revenue will remain stable.

Beyond 2003, we are positioned to benefit when copper prices recover and companies open new mines and expand existing mines.

Finning Chile will also benefit from synergies with the Company's acquisitions in Argentina, Uruguay and Bolivia.

En 2002, Finning Chile logró aumentos importantes en actividades de alto margen, como en servicios de apoyo al cliente y arriendo de equipos, mientras que los ingresos de un año a otro se mantuvieron estables frente a una economía chilena continuamente débil.

La economía se vio afectada por otro año de precios deprimidos del cobre, el conductor económico más importante del país. Chile es el mayor productor de cobre, y al menor costo, del mundo, y su producción se redujo aproximadamente en un 5% durante 2002.

Esta declinación de la producción no disminuyó la actividad de manera significativa, ya que muchas minas aprovecharon la oportunidad para mover estéril y otros materiales en la preparación de nuevas áreas de bajo costo de su producción mineral. Dado que Finning Chile tiene aproximadamente el 60% del mercado de equipos en las minas de cobre del país, se usaron camiones y cargadores CAT para gran parte de esta actividad.

Finning Chile completó dos transacciones de importancia con Codelco Chile, propiedad del Estado chileno en su totalidad y productora de cobre de mayor importancia del mundo, responsable del 15,9% de la producción global. Una de las transacciones incluyó la entrega de dos camiones nuevos Serie CAT 797B, que representa la introducción de los camiones 797 (el producto más grande de la línea CAT) en Codelco. Estos camiones fueron destinados a la operación de la empresa en Chuquicamata, y reciben un soporte completo de mantención.

La segunda transacción con Codelco fue un acuerdo con la mina Radomiro Tomic, parte de la nueva División Codelco Norte, para la renovación por dos años de su contrato de mantención y reparación. Este contrato cubre 29 equipos, incluyendo 13 camiones CAT 793B y se suma a los existentes con Codelco Radomiro Tomic, que cubren un total de 46 equipos.



## FINNING CHILE

Uno de los nuevos servicios que ofrece Finning Chile a sus clientes mineros es la capacitación de operarios, mediante un simulador de cabina completamente computarizada. El simulador le permite al operario a adquirir y practicar las aptitudes necesarias para operar de manera segura y eficiente los grandes camiones fuera de carretera y cargadores de ruedas, incluyendo el CAT 797B. El simulador puede entregarse en faena, reduciendo así el tiempo utilizado para la capacitación y los costos asociados con el uso de maquinaria real para este propósito. Además, el simulador puede capacitar a un operador para responder a situaciones que serían imposibles o peligrosas de simular en terreno.

Durante el año, Finning Chile adoptó una postura más agresiva en los sectores de construcción y forestal, lo que dio como resultado una mejora en el rendimiento de ingresos y un aumento importante en la participación del mercado. A raíz de la combinación del lento crecimiento económico y el exceso de oferta, estos mercados se han hecho extremadamente competitivos durante los últimos años. Se hicieron dos entregas de importancia durante el año a la Empresa Constructora Belfi S.A. y a la compañía mexicana Tradeco. Con un total de 15 unidades, esta maquinaria se destinó principalmente a la mejora continua de carreteras y de infraestructura en la zona central de Chile. Esta fue la primera vez que Belfi escogió a Finning por sobre otros proveedores, lo que demuestra nuestra determinación de aumentar nuestra participación de mercado en los sectores de construcción y forestal.

Finning Chile presenció mayor actividad en el mercado de arriendo de equipos mediante sus sucursales y el nuevo concepto del Cat Rental Store. El primer Cat Rental Store en Santiago está constantemente incrementando su participación de mercado y se espera abrir otro en 2003. En noviembre, un

segundo local abrió sus puertas en Calama, ubicada en el norte de Chile, en una de las áreas mineras de mayor importancia de la región.

La actividad en Calama está aumentando dramáticamente con la expansión por Codelco de su mina Chuquicamata, una de las minas de tajo abierto más grandes del mundo, que incluye el área ocupada originalmente por el campamento minero. La decisión implica el traslado de los residentes afectados a la ciudad cercana de Calama. El Cat Rental Store de Finning Chile, y su sucursal cercana de Antofagasta, se beneficiarán de esta actividad.

**EL MAÑANA**

Chile cuenta con una de las economías más competitivas del mundo, adelantándose a muchos países desarrollados y a todas las economías de América Latina.

Después de un fuerte crecimiento durante gran parte de la década del 90, la economía chilena se desaceleró a un crecimiento de producto interno bruto del 2,8% en 2001 y aproximadamente 2% en

2002. Las predicciones del gobierno son de un crecimiento superior al 3% en 2003, aún si el precio del cobre se mantiene en los niveles actuales. Chile negoció exitosamente un acuerdo de libre comercio con la Unión Europea y se encuentra, actualmente, negociando una relación similar con EE.UU.

En 2003, Finning Chile espera lograr ganancias ligeramente superiores, con actividades de alto margen que continúen mejorando la última línea. Estimamos continuar elevando nuestra participación de mercado en los sectores de construcción y forestal. Los ingresos del sector de minería se mantendrán estables.

Más allá de 2003, estamos en posición de beneficiarnos cuando el precio del cobre se recupere y las compañías abran nuevas minas y expandan las existentes.

Finning Chile se beneficiará también de la sinergia con las adquisiciones realizadas en Argentina, Uruguay y Bolivia.



The Company's acquisitions of the Caterpillar dealerships in Argentina, Uruguay and Bolivia\*, which closed subsequent to the year-end, significantly expand Finning's presence in South America. Finning operations in South America now span four adjacent countries with 22 branches and 2,289 employees. The operations cover a natural resource land area of 4.84 million square kilometres, approximately half the size of the entire continental U.S.A.



\*The acquisition of the Caterpillar dealerships in Bolivia was not completed as of the date of this report.



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## NEW SOUTH AMERICAN ACQUISITIONS

Pro-forma combined annual revenue for the three acquired dealerships was approximately \$110 million in 2002. Customers typically include large mining and oil and gas enterprises with contracts denominated in United States dollars. Each of the dealerships has commanding market shares in their respective countries.

As recently as 1998, their combined revenue was approximately \$300 million. MacroSA has 75 years of experience as the Caterpillar dealer in Argentina, providing Finning with access to the second largest economy in South America, and a resource rich country with excellent mining and oil and gas prospects, as well as construction and agricultural opportunities. Gemcosa, the Caterpillar dealer in

Uruguay, gives Finning access to opportunities in natural resources and manufacturing. Matreq, the Caterpillar dealer in Bolivia, provides Finning access to natural resources, including natural gas, petroleum and minerals. Finning's presence in the Southern Cone positions the Company for long-term growth at a low cost of entry.

In addition, several synergies will benefit the Company's operations in South America, including: leveraging Finning Chile's expertise and management systems; centralized sales and customer service facilities to serve copper and gold mining customers clustered near the Chile, Bolivia and Argentina borders; coordinating inventory and other asset management strategies; the expertise of Finning's Power System Group can be extended to oil and gas and pipeline customers in Bolivia and Argentina; and Finning will benefit from the highway and other infrastructure growth in the mineral-rich Southern Cone region.





**Las adquisiciones de los distribuidores Caterpillar en Argentina, Uruguay y Bolivia\*, cuyo cierre se dio después de finalizar el año, expandieron de manera importante la presencia de Finning en América del Sur. Las operaciones de Finning en América del Sur abarcan en la actualidad a cuatro países adyacentes, con 22 sucursales y 2.289 empleados. Estas operaciones cubren un área de recursos naturales de 4,84 millones de kilómetros cuadrados, aproximadamente la mitad del tamaño de todo EE.UU. continental.**

#### **NUEVAS ADQUISICIONES EN AMÉRICA DEL SUR**

En 2002, el ingreso anual combinado, pro-forma, de los tres distribuidores adquiridos fue aproximadamente de \$110 millones. Entre los clientes típicos se incluyen grandes empresas mineras y petroleras con contratos en dólares estadounidenses. Cada uno de los distribuidores cuenta con una participación de mercado importante en sus respectivos países y recientemente sus ingresos anuales combinados fueron, en 1998, de \$300 millones. Macrossa tiene 75 años de experiencia como distribuidor Caterpillar en Argentina, permitiéndole a Finning el acceso a la segunda economía de América del Sur. Gemcosa, el distribuidor Caterpillar en Uruguay, le entrega a Finning acceso a oportunidades en recursos

naturales y manufactura.

Matreq, en Bolivia, nos permite acceso a recursos naturales, como el gas natural, el petróleo y minerales. La presencia de Finning en el Cono Sur nos posiciona para un crecimiento a largo plazo y a un costo bajo de entrada.

Además, varias sinergias entregarán beneficios a las operaciones de la empresa en América del Sur, incluyendo: aprovechamiento de la experiencia de Finning y sus sistemas de gestión; puntos de venta y soporte al cliente centralizados para atender las necesidades de clientes de las industrias de cobre y oro conglomerados

cerca de las fronteras entre Chile, Bolivia y Argentina; coordinación de estrategias de inventarios y otras de manejo de activos; la experiencia del grupo Finning Power Systems podrá extenderse a clientes de oleoductos y gasoductos en Bolivia y Argentina; y finalmente, Finning se beneficiará del crecimiento en el desarrollo de rutas viales y otra infraestructura en el Cono Sur, región dotada con una abundancia de recursos naturales.

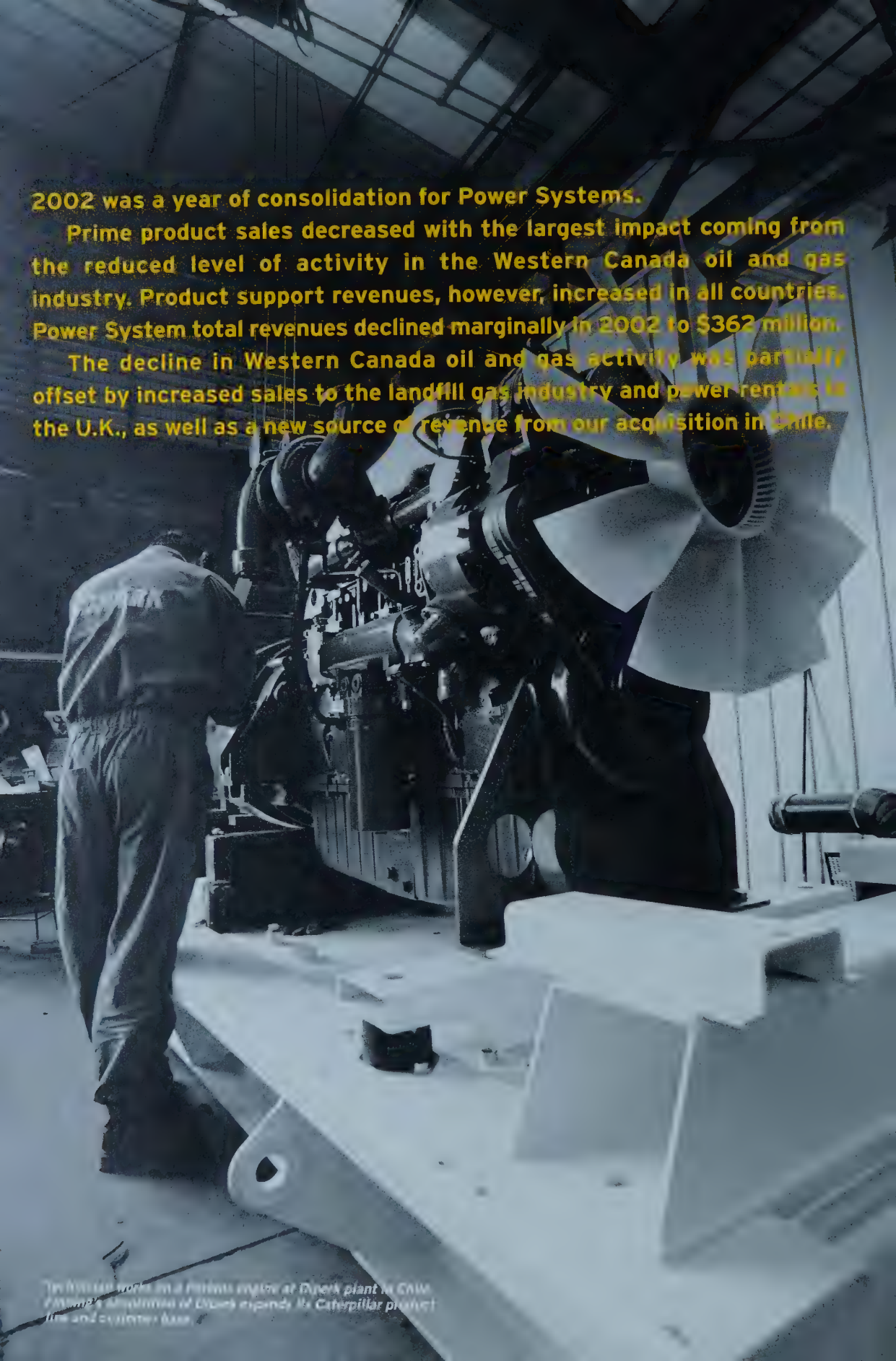
\*La adquisición de la sucursal boliviana no se había completado hasta la fecha en que se imprimió este informe.



**2002 was a year of consolidation for Power Systems.**

**Prime product sales decreased with the largest impact coming from the reduced level of activity in the Western Canada oil and gas industry. Product support revenues, however, increased in all countries. Power System total revenues declined marginally in 2002 to \$362 million.**

**The decline in Western Canada oil and gas activity was partially offset by increased sales to the landfill gas industry and power rentals in the U.K., as well as a new source of revenue from our acquisition in Chile.**



*Technician works on a D9000 engine at D9000 plant in CNW. Power Systems' acquisition of D9000 expands its Caterpillar product line and customer base.*

The Company made two investments in the Power Systems business during the year. In Canada, Finning acquired a 36.9% interest in Maxim Power Corporation, a Calgary based independent power producer that owns and operates 55 megawatts of generation capacity in Canada, Europe and Asia. Maxim's expertise in distributed energy and project development complements Finning's engineering, equipment supply, and engine maintenance skills.



Jack A. Carthy  
President

In Chile, Finning acquired 100% of Diperk S.A., the country's representative for two Caterpillar product lines, Perkins Engines and FG Wilson generator sets. This acquisition contributes to the Company's multiple-channel, multiple-brand business plan.

Finning participates in the truck engines business through the after-market sales and services of Caterpillar truck engines in Western Canada. Our already high market share – approximately 50% in heavy duty engines and 40% in mid-range engines – grew during 2002 as customers increased their purchases in anticipation of new environmental standards coming into effect in the United States and Canada.

The Company believes the introduction during 2003 of Caterpillar's new ACERT™ technology (Advanced Combustion Emission Reduction Technology) in the truck engine field will enable it to continue to grow market share in Canada and other countries as Caterpillar engines become increasingly available in on and off highway truck applications.

The marine market has two broad segments: commercial and pleasure craft. The commercial marine market was somewhat depressed because of the low demand by the fishing industry. We did, however, enjoy success with our MaK product in the U.K., B.C. and Chile. The pleasure craft market was buoyant in both B.C. and the U.K., especially for large powerboats. Caterpillar engines are well received by discriminating owners of large pleasure craft in Europe and in North America.

#### **TOMORROW**

We expect 2003 to be another challenging year in most markets, with the largest potential for growth coming from drilling and gas compression activity in the Western Canada oil and gas industry.

Early in 2003, Maxim awarded Finning (Canada) a contract to supply the powerhouse for a six megawatt waste gas recovery project for the City of Vancouver. This landfill project is typical of the synergies we see between Maxim and Finning Power Systems. We are optimistic about the prospects in the coming years, as more of these types of projects will be built in our markets.

Early in 2003, Caterpillar Inc. and ten European Caterpillar dealers, including Finning (UK) established a Pan European power rental company, Energyst Rental Solutions<sup>SM</sup>, to take advantage of opportunities in the power rental market in Europe.

The newly acquired territories in South America have significant growth opportunities for the oil and gas industries and other sectors where our engines and international expertise have a strong future.

Longer term, construction of a pipeline to bring natural gas from the Arctic through Western Canada to the United States offers a large potential market, both for construction machines and for gas compression station engines.

As new engine models and power systems attachments are added to the Caterpillar engine lines, we anticipate new opportunities in the territories and markets we currently serve.

Finning has set aggressive growth targets for the Power Systems business units. These growth objectives are tied to the continued expansion of the Caterpillar engine families and the growing demand for clean, green, and dependable power.



**An important factor in Finning International achieving record bottom-line performance in 2002 was the contribution from customer support services. Customer support services contributed 31.8% of 2002 revenue, compared with 29.5% in 2001. Customer support services includes sales of parts and servicing of equipment, as well as service contracts to customers in the form of long-term maintenance and repair contracts, and supply chain logistics.**

In 2002, we continued our emphasis on customer service improvement in parts, service and the Component Rebuild Centres. We are continuing to rationalize our branch networks in all our countries of operation and improving our field service force to meet the objective of efficiently servicing a higher ratio of the equipment we deliver.



Brian C. Bell  
Executive  
Vice President

We are also working to increase the proportion of our service performed by field mechanics. These skilled and resourceful individuals are capable of performing all but the largest repair projects, in virtually all latitudes and elevations and on short notice. Field maintenance, where appropriate, reduces customers' costs by returning their equipment to productive operation sooner than if the equipment was moved to a service depot for repair. Operating from their field service trucks, our field mechanics are the front-line faces of Finning's growing customer service culture. We have initiated several measures that make it easier for customers to get the

information and satisfaction they deserve. Toll-free numbers in Canada and the U.K. channel customers with questions about any activity to the specific Finning employee with the relevant answers. Twenty-four hours a day, our [www.finning.com](http://www.finning.com) website allows a customer to view a library of information online, chat online with a service representative, view invoices and the results of machine oil samples tested in Finning's laboratory, or leave e-mail messages that will be forwarded to the appropriate Finning employee.

**TOMORROW**

We have made significant progress on our transition to a service-oriented company but we are still only at midpoint and we are continually implementing new service-oriented initiatives. We are beginning to implement a new information technology system that will let us deliver world-class service to all our customers across all the countries in which we operate. The new Caterpillar Dealer Business System, called DBSi, will ultimately enhance our supply chain management, finance and administration and customer relationship management capabilities. We are continuing to add new field service technicians in all our countries, while replacing unprofitable or poorly located customer service facilities with new locations that serve customers more efficiently.



*Giant CAT 990 wheel loader is serviced in a quarry operation in Leicestershire, U.K. Strong sales of equipment to the quarry industry boosted market share for Finning (UK).*



## FINANCIAL MANAGEMENT

Finning International achieved record earnings of \$132.3 million, an increase of 27.3% over 2001 despite marginally lower revenues of \$3.21 billion. The improved earnings resulted from a number of performance achievements – all of which we are determined to sustain or improve.

Two of the key corporate strategies, geographic diversification of our operations and diversification of our revenue stream are detailed in other sections of this Annual Report.

The third key corporate strategy is the implementation of financial initiatives that add to the Company's financial strength and performance. Essentially, these measures focus on improving our return on assets and strengthening our balance sheet to enable us to pursue new acquisitions of high-potential assets and seize other growth opportunities in core businesses.



*Richard T. Mahler  
Executive Vice President  
and Chief Financial Officer*

In January 2002, we sold a number of our Canadian properties for \$79 million and entered into long-term leases with the purchaser. This transaction allowed us to take cash invested in our property and reinvest it into activities that bring a higher return than was generated by owning the facilities. Properties sold and leased back included the Edmonton head office of Finning (Canada), the Calgary main branch in Alberta, the Surrey

main branch in British Columbia and 16 other properties located throughout Western Canada.

In December 2002, we sold substantially all our Canadian conditional sales contract portfolio to Caterpillar Financial Services Limited and securitized a portion of our accounts receivable portfolio. Proceeds from these two transactions were \$120 million in 2002, with additional proceeds of up to \$70 million expected in 2003. Both transactions were applied in the short term to reduce debt, but proceeds will ultimately be deployed into new acquisitions, growth initiatives and other opportunities to increase value for our shareholders.

The Company ended 2002 with a debt to equity ratio of 0.58, the fourth consecutive year of improvement. At this debt level, we are comfortably within our BBB+ credit rating, indicating that we have the financial strength to seize attractive acquisition opportunities when they arise. Further, we were able to enhance the ability of the acquisitions to immediately become accretive to earnings by using debt to finance our acquisitions, as is the case with the Caterpillar dealerships in Argentina, Uruguay and Bolivia.

During the year, we worked with Caterpillar on a pilot to implement new procedures regarding the payment of equipment and parts in Finning (Canada). This procedure provided Finning and Caterpillar with more flexibility, and is now being extended to other Caterpillar dealers.

We also brought significant efficiencies to our collection of receivables in Canada by opening a customer service

centre. Approximately 40% of the Company's current assets are located in Canada, so reducing Canadian receivables has an important impact on our return on assets. We are considering adding customer service centres to our other operations.

An additional improvement in return on assets has resulted from improved management of our equipment inventory. We now have a machine in inventory for about three months before it is sold, compared with four months just two years ago, which reduces the Company's new equipment inventory investment by approximately 25%.

The Company increased its annual dividend twice during 2002, and again in January 2003, the first increases since 1995, a signal that management is confident about the earnings we are now generating and will sustain for the foreseeable future. The dividend is now \$0.09/quarter.

Another decision that signals the Company's confidence is the decision to renew its share repurchase program. The Company has received approval from the Toronto Stock Exchange to purchase up to 10% of the Company's public float, or 7,729,559 common shares during the period December 3, 2002 to December 2, 2003. All shares purchased under the issuer bid will be cancelled.

The downward trend in the Company's tax rate is another contributor to our bottom-line and return on assets performance. Our tax rate declined, as a larger proportion of our business is undertaken offshore, since the Canadian corporate tax rate is the highest of the countries in which we operate. Our effective tax rate in 2002 was 26.8% compared with 27.3% in 2001, largely because of our acquisition in 2001 of Hewden Stuart in the U.K. Our South American acquisition will contribute to this trend in 2003.





*Rebar frames Caterpillar 246 skid steer loader moving dirt on a river diversion and road construction project in downtown Santiago.*

## RESULTS OF OPERATIONS

Finning International achieved record results in 2002. Consolidated revenues in 2002 declined 1.2% from 2001 to \$3,207.5 million, whereas consolidated net income increased 27.3% to \$132.3 million. Basic earnings per share for the year 2002 was \$1.72 compared with \$1.37 in 2001, representing a 25.5% increase.

Excluding the impact of items included in "Other expenses (income)" (see note 13 to the Consolidated Financial Statements) and goodwill amortization, normalized earnings before interest and taxes (EBIT) for the year was \$272.2 million (higher by 0.9%), normalized net income was \$127.6 million (higher by 8.4%) and normalized Basic EPS was \$1.66 (higher by 7.8%).

Cash flow after changes in working capital was \$472.8 million compared with \$445.6 million in 2001. The Company reinvested \$305.7 million (2001: \$311.7 million) in revenue-earning rental and lease assets during the year.

The table below sets forth summary financial data for the years indicated.

| (C\$ million)                                    | 2002              | 2001       | (% of Revenue) |       |
|--|-------------------|------------|----------------|-------|
|  |                   |            | 2002           | 2001  |
| Revenue  | <b>\$ 3,207.5</b> | \$ 3,247.0 |                |       |
| Gross profit                                     | <b>959.7</b>      | 904.7      | <b>29.9%</b>   | 27.9% |
| Selling, general & administrative expenses       | <b>687.5</b>      | 634.9      | <b>21.4%</b>   | 19.6% |
| Normalized EBIT                                  | <b>272.2</b>      | 269.8      | <b>8.5%</b>    | 8.3%  |
| Amortization of goodwill                         | <b>—</b>          | 10.0       | <b>0.0%</b>    | 0.3%  |
| Other expenses (income)                          | <b>(5.6)</b>      | 18.2       | <b>-0.2%</b>   | 0.6%  |
| EBIT   | <b>277.8</b>      | 241.6      | <b>8.7%</b>    | 7.4%  |
| Finance costs and interest on other indebtedness | <b>79.8</b>       | 85.6       | <b>2.5%</b>    | 2.6%  |
| Provision for income taxes                       | <b>47.7</b>       | 29.0       | <b>1.5%</b>    | 0.9%  |
| Non-controlling interests                        | <b>18.0</b>       | 23.1       | <b>0.6%</b>    | 0.7%  |
| Net income                                       | <b>\$ 132.3</b>   | \$ 103.9   | <b>4.1%</b>    | 3.2%  |



MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUE

In 2002, although consolidated revenues were lower by \$39.5 million when compared with the prior year, UK and Hewden achieved record revenues. A significant part of their increase was due to the appreciation of approximately 5.5% in the British pound sterling relative to the Canadian dollar and included a full year contribution from Hewden (In 2001, Hewden contributed for 11 months). The consolidated revenue shortfall was mainly due to the Canadian operation which was lower by \$129.3 million or 9.2%.

The table below provides details of revenue by operations and lines of business.

(C\$ million)

| <b>2002</b>                      | <b>Canada</b> | <b>UK</b> | <b>Chile</b> | <b>Hewden</b> | <b>Other</b> | <b>Consolidated</b> | <b>Revenue %</b> |
|----------------------------------|---------------|-----------|--------------|---------------|--------------|---------------------|------------------|
| New mobile equipment             | \$ 391.0      | \$ 325.0  | \$ 98.4      | \$ 10.9       | \$ -         | \$ 825.3            | 25.7%            |
| New power & energy systems       | 73.1          | 92.2      | 26.7         | -             | -            | 192.0               | 6.0%             |
| Used equipment                   | 142.9         | 124.8     | 13.8         | 48.2          | -            | 329.7               | 10.3%            |
| Equipment rental                 | 102.2         | 61.2      | 15.8         | 565.3         | -            | 744.5               | 23.2%            |
| Operating leases                 | 87.6          | -         | -            | -             | -            | 87.6                | 2.7%             |
| Customer support services        | 464.5         | 225.0     | 288.8        | 40.9          | -            | 1,019.2             | 31.8%            |
| Finance and other                | 8.0           | -         | 1.1          | -             | 0.1          | 9.2                 | 0.3%             |
| Total                            | \$1,269.3     | \$ 828.2  | \$ 444.6     | \$ 665.3      | \$ 0.1       | \$ 3,207.5          | 100.0%           |
| Revenue percentage by operations | 39.6%         | 25.8%     | 13.8%        | 20.8%         | 0.0%         | 100.0%              |                  |

| <b>2001</b>                      | <b>Canada</b> | <b>UK</b> | <b>Chile</b> | <b>Hewden</b> | <b>Other</b> | <b>Consolidated</b> | <b>Revenue %</b> |
|----------------------------------|---------------|-----------|--------------|---------------|--------------|---------------------|------------------|
| New mobile equipment             | \$ 404.2      | \$ 343.0  | \$ 140.3     | \$ 9.0        | \$ -         | \$ 896.5            | 27.6%            |
| New power & energy systems       | 140.7         | 81.5      | 16.1         | -             | -            | 238.3               | 7.3%             |
| Used equipment                   | 185.7         | 116.3     | 28.0         | 24.7          | 1.1          | 355.8               | 11.0%            |
| Equipment rental                 | 107.1         | 52.7      | 13.1         | 518.1         | 0.1          | 691.1               | 21.3%            |
| Operating leases                 | 95.7          | -         | -            | -             | -            | 95.7                | 2.9%             |
| Customer support services        | 452.6         | 210.6     | 250.1        | 35.7          | 7.3          | 956.3               | 29.5%            |
| Finance and other                | 12.6          | -         | 0.4          | -             | 0.3          | 13.3                | 0.4%             |
| Total                            | \$1,398.6     | \$ 804.1  | \$ 448.0     | \$ 587.5      | \$ 8.8       | \$ 3,247.0          | 100.0%           |
| Revenue percentage by operations | 43.1%         | 24.7%     | 13.8%        | 18.1%         | 0.3%         | 100.0%              |                  |

### Canada

A softening in the International marketplace and a slow down in the oil and gas sector resulted in lower revenues from used equipment and power and energy systems in 2002. The lower revenues also reflected the absence of approximately \$34.8 million contribution from the Canadian Materials Handling business which was sold in the 4th quarter of 2001. Compared with the record revenues of 2001, new mobile equipment revenues experienced only a 3.3% decline. In 2002, sales of selected operating leases to Caterpillar Financial Services generated \$61.0 million equipment revenue with the reduction of \$17.4 million of leasing revenues. The estimated impact on 2003 of these sales is a reduction in leasing revenue of \$8.9 million. The delivery of Caterpillar 797 model trucks and support vehicles into the mining and energy sectors continued to support 2002 revenues. The energy sector is expected to be a significant factor for the Company in 2003 due to the sizeable contract from Albian Sands Energy Inc. to supply equipment worth over \$80 million in 2003. Revenue from customer support services grew 2.6% with growth opportunities as the Company continues to supply new equipment with significant maintenance and repair contracts to the Alberta oil sands developers.

Equipment rental revenues were 4.6% lower than 2001 due to the absence of the Materials Handling rental activity but were positively affected by the addition of five new CAT rental stores. At year-end, a total of 12 CAT rental stores were operating in British Columbia and Alberta.

### UK

For the second consecutive year, higher revenues were achieved in the UK operation. This was due to currency translation as the British pound sterling appreciated against the Canadian dollar. In Canadian dollars, UK revenue increased by 3.0%. In local currency terms, revenue declined by 2.1%.

New mobile equipment declined 5.3% (9.1% in local currency terms). In 2001, infrastructure spending resulted in large construction equipment contracts, most notably on the Birmingham northern relief road, which boosted revenues. While activity remained strong in this area in 2002, these large sales were not repeated. Partially offsetting, growth was seen in both the Materials Handling business, which increased the supply of equipment to national accounts, and the Power Systems business which benefited by increased activity in the EPG gas and petroleum sectors.

Rental revenue improvement of 16.1% (in British pound sterling, improvement was 9.8%) reflected continued strength in the Materials Handling rental fleet, power rentals to U.K. utility companies for stand-by power generation, and long-term agreements for equipment rental and maintenance to the landfill and waste recycling industry.

Increased marketing on customer service contracts and growth through acquisitions, such as the 2001 acquisition of Finn pave, boosted customer support services revenue by 6.8% (1.2% in local currency terms) over the 2001 level. Customer support services contributed 27.1% of total revenue in 2002 (2001: 26.3%). Growth opportunities continue into 2003 with continued focus on marketing customer support programs and the completion of a new Customer Service Centre for existing and new customers.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Chile

In total, revenues continued at the 2001 level. New mobile equipment revenues declined by \$41.9 million (29.9%). Another year of soft copper prices delayed large mining projects. Some customer purchases were deferred and some customers opted for a rental type agreement compared to direct purchase. However, new large Caterpillar mining equipment contracts continued to support mining customers in non-production activities (such as moving overburden to prepare new low-cost sections of their ore bodies for production) , and, in conjunction with comprehensive maintenance packages, Finning Chile was awarded with several significant contracts in 2002 from such customers as Codelco (wholly-owned by the Chilean State and the largest single copper producer in the world) and the Escondida Copper Mine.

New power and energy systems revenue increased \$10.6 million (65.8%) through the contribution of the April 2002 acquisition of Distribuidora Perkins Chilena S.A. ("Diperk"), the dealer for two Caterpillar manufactured product lines of Perkins Engines and FG Wilson. Diperk revenue was \$14.3 million for 2002.

Rental revenue increased by 20.6% with a larger number of available rental fleet units and increased activity for the CAT rental store. A second store was opened in November.

Aided by increased maintenance and repair contracts with mining customers and higher direct parts sales, customer support services revenue increased \$38.7 million (15.5%) from 2001. These higher-margined revenues accounted for 65.0% (2001: 55.8%) of the total Chile revenue. Supplying the Chilean copper mine industry with these complete maintenance packages continues to be a leading growth opportunity for the Company.

### Hewden

The first full year for Hewden under Finning ownership achieved revenues of \$665.3 million, 13.2% higher than 2001. In local currency terms, revenues increased by 7.0%. The comparative 2001 numbers include results for eleven months (since acquisition Jan 26, 2001).

Despite the weak and uncertain economic conditions that prevailed in the U.K. rental sector for 2002, rental revenue was sustained by organic growth and acquisitions. In line with its strategy of focusing on its core rental business, Hewden invested \$44.0 million in acquiring the majority of the remaining rental and other assets of Maxxiom Limited, invested approximately \$20.0 million in new mobile cranes, and divested its non-core Tower Cranes business.

In order to increase market share and performance, under-performing depots were closed and new depots were opened in more appropriate locations. There are currently 353 depots throughout the U.K. with future expansion opportunities being predominately through complementary acquisitions.

### Other

During 2001, the Company integrated its international used equipment and parts operations (UMS) into existing country operations.

#### • GROSS PROFITS

Gross profits increased \$55.0 million (6.1%) to \$959.7 million in 2002 compared with 2001. As a percentage of revenue, gross margin was higher at 29.9% compared with 27.9% in 2001. These increases were attributable to:

- inclusion of one extra month results from Hewden.
- revenue mix shift towards higher-margined rental and customer support services. Combined, these revenues produced a revenue mix of 54.9% compared to 50.8% in 2001.
- favourable performance on customer service maintenance and repair contracts.
- maintenance of pricing strategy despite strong competition in the rental sectors.

Canada, Chile and the UK operations showed improved gross margin as a percentage of revenue while Hewden maintained its 2001 gross margin percentage.

#### • SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased \$52.6 million (8.3%) to \$687.5 million in 2002 compared with 2001. As a percentage of revenue, these expenses were higher at 21.4% compared with 19.6% in 2001. Influencing factors were:

- in Hewden and the UK operations, the impact of translation of the British pound sterling which appreciated against the Canadian dollar contributed approximately \$16.8 million higher expenses.
- revenue mix increase in higher cost structure activities of rental and customer support services.
- one additional month of Hewden operations added approximately \$12.3 million in 2002.
- Canadian operation's property sale/leaseback increased occupancy charges by approximately \$5.2 million.
- higher operating costs in Canada, UK and Hewden due to increased insurance premiums and higher pension expenses (\$6.4 million).
- lower bad debt expenses of \$7.5 million in UK, Chile and Hewden.

#### • AMORTIZATION OF GOODWILL

Amortization of goodwill ceased in 2002 in accordance with the accounting standard of the CICA Handbook Section 3062. Instead, goodwill is subject to an assessment for impairment by applying a fair-value based test at the reporting unit level. At December 31, 2002, there was no impairment on any of the operation's goodwill values.

#### • OTHER EXPENSES (INCOME)

Other expenses (income) include items shown separately to facilitate comparison with last year. As a result of the transactions described below, the Company recorded a pre-tax income of \$5.6 million, \$4.6 million after-tax. These pre-tax items included:

- the sale of surplus real estate in Canada and the U.K. for a gain of \$15.3 million.
- amortization of \$1.6 million from the deferred gain on the 2001 sale of the Materials Handling business in Canada.
- equity investment loss of \$1.0 million.
- costs incurred on DBSi process reengineering project of \$10.3 million. DBSi is the new information technology for the Caterpillar Dealer Business System. DBSi enhancements encompass customer relationship management, finance and administration, and supply chain management.



MANAGEMENT'S DISCUSSION AND ANALYSIS

EBIT CONTRIBUTION BY OPERATIONS

EBIT increased by 15.0% to \$277.8 million compared with \$241.6 million in 2001. EBIT as a percentage of revenue was 8.7% in 2002 (2001: 7.4%) with most of the improvement derived from the UK and Chile operations.

The table below illustrates EBIT contribution by operations:

(C\$ million)

| 2002                             | Canada    | UK       | Chile    | Hewden   | Other    | Consolidated |
|----------------------------------|-----------|----------|----------|----------|----------|--------------|
| Revenue from external sources    | \$1,269.3 | \$ 828.2 | \$ 444.6 | \$ 665.3 | \$ 0.1   | \$3,207.5    |
| Operating costs                  | 1,021.2   | 752.9    | 388.1    | 443.6    | 14.5     | 2,620.3      |
| Depreciation                     | 135.1     | 26.1     | 11.7     | 142.1    | –        | 315.0        |
| Other expenses (income)          | –         | –        | –        | –        | (5.6)    | (5.6)        |
| Earnings before interest and tax | \$ 113.0  | \$ 49.2  | \$ 44.8  | \$ 79.6  | \$ (8.8) | \$ 277.8     |
| EBIT as a percentage of revenue  | 8.9%      | 5.9%     | 10.1%    | 12.0%    | –        | 8.7%         |
| EBIT percentage by operations    | 40.7%     | 17.7%    | 16.1%    | 28.7%    | –3.2%    | 100.0%       |

| 2001                             | Canada    | UK       | Chile    | Hewden   | Other     | Consolidated |
|----------------------------------|-----------|----------|----------|----------|-----------|--------------|
| Revenue from external sources    | \$1,398.6 | \$ 804.1 | \$ 448.0 | \$ 587.5 | \$ 8.8    | \$ 3,247.0   |
| Operating costs                  | 1,114.2   | 748.8    | 399.4    | 380.7    | 25.6      | 2,668.7      |
| Depreciation                     | 151.4     | 22.1     | 10.0     | 125.0    | –         | 308.5        |
| Amortization of goodwill         | 1.1       | 1.0      | –        | 7.9      | –         | 10.0         |
| Other expenses (income)          | –         | –        | –        | –        | 18.2      | 18.2         |
| Earnings before interest and tax | \$ 131.9  | \$ 32.2  | \$ 38.6  | \$ 73.9  | \$ (35.0) | \$ 241.6     |
| EBIT as a percentage of revenue  | 9.4%      | 4.0%     | 8.6%     | 12.6%    | –         | 7.4%         |
| EBIT percentage by operations    | 54.6%     | 13.3%    | 16.0%    | 30.6%    | –14.5%    | 100.0%       |

FINANCE COSTS AND INTEREST ON OTHER INDEBTEDNESS

Finance costs and interest on other indebtedness in 2002 was \$79.8 million or \$5.7 million lower than 2001, mainly as the overall debt levels decreased due to asset reductions achieved through such initiatives as the Canadian property sale/leaseback, the Canadian accounts receivable securitization program and the sale of the notes portfolio. The effective rate of financing costs and interest, which includes interest on debt securities, swap contracts, amortization of deferred financing costs and other expenses, increased during the year from 7.8% in 2001 to 9.1% reflecting a portfolio shift from floating to fixed rates.

PROFIT BEFORE FINANCE COSTS

Income tax expense in 2002 amounted to \$47.7 million (2001: \$29.0 million), reflecting an effective tax rate of 26.5% during the year compared with 21.8% in 2001. The 2001 tax rate was unusually low due to the favourable tax treatment on the Company's donation of its Great Northern Way Canadian property to a consortium of higher learning institutions.

Normalized for other items (see note 13 to Consolidated Financial Statements), the effective tax rate for the two years was 26.8% and 27.3% respectively. The decrease in Company's effective tax rate is mainly due to higher proportion of income being generated in low tax jurisdictions.

FINANCIAL FACILITIES

The Company formed a partnership for the purpose of raising capital to fund the acquisition of Hewden. Third party investors injected \$425.0 million of capital into the partnership for a non-controlling partnership interest. The partnership interests are entitled to a quarterly distribution on their capital account, which is calculated with reference to Canadian dollar bankers acceptances. The distribution for the year was \$18.0 million (2001: \$23.1 million), representing a yield of 4.2% (2001: 6.1%).

**RESULTS**

Net income improved by 27.3% to \$132.3 million in 2002 compared with a year earlier, resulting in an increase in basic earnings per share from \$1.37 to \$1.72. This \$28.4 million improvement was mainly due to lower finance costs, net gains on other income/expense, absence of goodwill amortization and lower non-controlling interests distributions. Normalized for other items discussed earlier and goodwill amortization, net income was \$127.6 million compared with \$117.7 million last year and normalized basic earnings per share rose to \$1.66 from \$1.54.

**LIQUIDITY AND CAPITAL REQUIREMENTS**

Management of the Company assesses liquidity in terms of its ability to generate sufficient cash flow to fund its operations. Net cash flow is affected by the following items:

- operating activities, including the level of accounts receivable, inventories, accounts payable, rental equipment and financing provided to customers;
- investing activities, including acquisitions of complementary businesses, and capital expenditure; and
- external financing, including bank credit facilities, commercial paper and other capital market activities, providing both short and long-term financing.

**CASH FLOW FROM OPERATING ACTIVITIES**

Cash provided after changes in working capital items was \$472.8 million compared with \$445.6 million in 2001. During the year, \$305.7 million was reinvested (2001: \$311.7 million) in revenue-earning assets and as a result, net cash flow from operating activities was \$167.1 million in 2002 compared with \$133.9 million in 2001.

**CASH USED FOR INVESTING ACTIVITIES**

Net cash generated from investing activities totalled \$49.1 million. Cash was generated from divestiture of Hewden's Tower Cranes non-core businesses (\$44.2 million) and from the net proceeds of the sale/leaseback of the Canadian operation's properties (\$77.0 million). Cash was utilized for investing for the following items:

- \$44.0 million utilized by Hewden for the acquisition of the majority of the remaining assets of Maxxiom Limited in the U.K.. These assets expanded Hewden's rental fleet by 7,200 units. In June 2001, Hewden had acquired an initial 640 units from Maxxiom Limited valued at \$21.0 million.
- \$ 6.3 million investment in Chile to acquire Distribuidora Perkins Chilena SAC (Diperk), an engine and generator set distribution company for Perkins and FG Wilson products and its complementary service operation.
- \$15.0 million equity investment in Maxim Power Corporation ("Maxim"), a Calgary-based independent power producer providing innovative distributed power solutions in domestic and international energy markets. The Company acquired 36.9% of the common shares of Maxim. As part of this transaction, the Company acquired warrants which entitle the Company to purchase 50 million common shares at a price of \$0.60 each and which, if exercised, would allow the Company to increase its position in Maxim to approximately 45% on a fully diluted basis. The investment in Maxim is accounted for using the equity method.
- Operational net capital expenditures of \$6.9 million. Total gross spending on operational capital assets was \$47.4 million offset by disposals of \$40.5 million.



FINANCING ACTIVITIES

To complement the internally generated funds from operating and investing activities, the Company has available approximately \$1,111.1 million in unsecured short-term credit facilities and \$38.2 million in unsecured term facilities. The Company also has a commercial paper program for \$300.0 million, which can be issued against the designated short-term credit facilities amount. At the year-end, the term facilities were fully drawn and approximately \$295.8 million was drawn against the short-term facilities.

Longer-term capital resources are provided by direct access to capital markets. The Company is rated by both Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS). DBRS rates Finning's senior debentures and medium term notes as BBB (high) and its commercial paper as R-2 (high). The respective S&P rating is BBB+ stable.

As at December 31, 2002 overall debt decreased by \$266.2 million. Short-term debt decreased by \$148.9 million to \$223.5 million during the year while long-term debt decreased by \$117.3 million from \$673.7 million to \$556.4 million.

Late 2002, the Company generated cash of \$88.6 million upon the sale of the majority of its instalment notes receivable portfolio to Caterpillar Financial Services Limited. In addition, the Company entered into a \$120.0 million securitization program for its accounts receivable portfolio in Canada. In December, the Company sold \$30.0 million as an initial amount under the program. The cash from these activities will be redeployed to fund new acquisitions and other growth initiatives. Also, in late 2002, cash was used for a voluntary payment of \$39.7 million to fund non-registered pension plans that were previously underfunded.

The Company did not have any equity issues in 2002. Share capital increased from \$212.1 million in 2001 to \$233.4 million at the end of 2002, reflecting the exercise of stock options for 1.8 million common shares. There was no repurchase of common shares in 2002 as part of the normal course issuer bids that were in place during the year. Under the current normal course issuer bid agreement, issued December 3, 2002, the Company is allowed to buy back a maximum of 7.7 million shares (10% of the Company's public float) up to December 2, 2003. The Company is undertaking this issuer bid, as it believes that the current market price of its common shares does not reflect the underlying value of the Company.

As a result of management's confidence in the future earnings for the Company and commitment to the return of value to its shareholders, the Company increased its quarterly dividend rate during 2002. In February, the Company increased the dividend rate by two cents to 7 cents per common share, the first dividend rate increase since 1995. In July, the dividend rate was increased by an additional one cent. Subsequent to the year-end, in January 2003, the dividend rate was further increased by one cent to 9 cents per common share as the dividend rate going into 2003.

The Company has an employee share purchase plan for its Canadian employees. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at market value. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2002, over 63% of Canadian employees were contributing to this plan compared with 67% at the end of 2001. During 2002, the Company commenced an All Employee Share Purchase Ownership Plan for its employees in Finning (UK) and Hewden. Under the terms of this plan, employees may contribute up to 10% of their salary to a maximum of £125.00 per month. The Company will provide one common share, purchased in the open market, for every three the employee purchases. At December 31, 2002, over 24% and 11% of eligible employees in the UK operations and Hewden, respectively, were contributing to this plan. These plans may be cancelled by Finning at any time.

## FINANCIAL LEVERAGE

The Company's operations consist of three major components, namely its operating (new and used equipment sales and customer support services), equipment rental activities and finance (equipment leasing and financing). Each of these major components has a different risk profile. Accordingly, Finning applies a different capital structure and financial leverage to each component based on industry norms.

The finance assets and rental assets are supported by a combination of debt and equity. Finning applies a debt to equity ratio of 7:1 to its finance operation and 5:1 to its rental operation. Total debt, non-controlling interests and shareholders' equity is allocated to the operating, finance, rental activities and non-controlling interests. Future income taxes are allocated based on the assets and liabilities assigned to the operating, finance and rental activities. The debt to equity ratios were calculated on a fully consolidated basis including the non-controlling interests of \$425.0 million as equity. (For further information on the non-controlling interests, see Notes to Consolidated Financial Statements, Note 10).

The Company's overall debt to equity ratio improved from 0.87 at the end of 2001 to 0.58 at the end of 2002 as a new ten-year low. Debt to equity ratio for its operating activities (excluding finance and rental activities and the non-controlling interests) at negative 0.18 compared to positive 0.21 in 2001. This continued improvement in the overall debt to equity ratio was primarily due to the Company's focused asset management program to improve current operating asset efficiency and its focus on its core-business activities. The Company achieved an improvement in return on assets, return on equity and earnings in 2002 as a result of its initiatives.

The tables below compare financial leverage and operating debt to equity ratio for the Company as at the end of 2002 with the corresponding ratios for 2001.

(C\$ million)

| As at Dec 31, 2002                       | Non-controlling |            |           |          |              |
|--|-----------------|------------|-----------|----------|--------------|
|  | Operations      | Rental     | Interests | Finance  | Consolidated |
| Total assets                             | \$ 1,246.3      | \$ 1,148.3 | \$ 425.0  | \$ 250.0 | \$ 3,069.6   |
| Payables and accruals                    | 624.0           | 256.5      | —         | 7.8      | 888.3        |
| Future income taxes                      | 0.9             | 34.4       | —         | 10.7     | 46.0         |
| Liabilities                              | 624.9           | 290.9      | —         | 18.5     | 934.3        |
| Net investment                           | \$ 621.4        | \$ 857.4   | \$ 425.0  | \$ 231.5 | \$ 2,135.3   |
| Short & long term debt                   | \$ (137.2)      | \$ 714.5   | \$ —      | \$ 202.6 | \$ 779.9     |
| Non-controlling interests                | —               | —          | 425.0     | —        | 425.0        |
| Shareholders' equity                     | 758.6           | 142.9      | —         | 28.9     | 930.4        |
| Total debt, NCI and shareholders' equity | \$ 621.4        | \$ 857.4   | \$ 425.0  | \$ 231.5 | \$ 2,135.3   |
| Debt to equity                           | (0.18)          | 5.00       | —         | 7.00     | 0.58         |

| As at Dec 31, 2001                       | Non-controlling |            |           |          |              |
|--|-----------------|------------|-----------|----------|--------------|
|  | Operations      | Rental     | Interests | Finance  | Consolidated |
| Total assets                             | \$ 1,240.0      | \$ 1,000.9 | \$ 425.0  | \$ 372.9 | \$ 3,038.8   |
| Payables and accruals                    | 523.2           | 242.5      | —         | 3.7      | 769.4        |
| Future income taxes                      | (17.8)          | 27.9       | —         | 12.3     | 22.4         |
| Liabilities                              | 505.4           | 270.4      | —         | 16.0     | 791.8        |
| Net investment                           | \$ 734.6        | \$ 730.5   | \$ 425.0  | \$ 356.9 | \$ 2,247.0   |
| Short & long term debt                   | \$ 125.0        | \$ 608.8   | \$ —      | \$ 312.3 | \$ 1,046.1   |
| Non-controlling interests                | —               | —          | 425.0     | —        | 425.0        |
| Shareholders' equity                     | 609.6           | 121.7      | —         | 44.6     | 775.9        |
| Total debt, NCI and shareholders' equity | \$ 734.6        | \$ 730.5   | \$ 425.0  | \$ 356.9 | \$ 2,247.0   |
| Debt to equity                           | 0.21            | 5.00       | —         | 7.00     | 0.87         |



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses various financial instruments such as interest rate swaps, forward exchange contracts and options as hedges against actual assets or liabilities. Derivative financial instruments are always associated with a related risk position. For example, the Company has a policy of arranging its financing such that the fixed rate financing offered to its customers is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. The Company enters into swap agreements, which fix the effective interest rate and currency of the borrowing. This is an effective and flexible method of matching fixed rate terms provided to customers with fixed rate debt obligations.

The Company continually evaluates and manages risks associated with financial derivatives. This includes counterparty credit exposure. The Company manages its credit exposure by ensuring there is no substantial concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

FINANCIAL PERFORMANCE AND FINANCIAL RISK

The Company's financial performance may be influenced either favourably or adversely by fluctuations in foreign exchange, commodity prices and interest rates.

The Company is subject to four main direct sources of foreign exchange risk: transaction, translation, economic and competitive. The first source of foreign exchange risk, transaction risk, relates to fluctuations in the purchase price of inventory. The Company's operations in Canada and Chile source the majority of their products from the United States and, as a consequence, exchange rate movements affect the transaction price for most equipment and parts. Finning is generally able to manage this risk through adjustments in the pricing of its product sales, and through the use of financial derivatives. Finning uses a combination of forward, option or spot strategies to manage the foreign exchange transaction exposure.

The second source of foreign exchange risk, translation risk, relates to the fact that the Company's U.K. and Chilean operations are recorded in its financial statements in Canadian dollars, while those operations conduct business primarily in the British pound sterling in the U.K., and Chilean pesos and U.S. dollars in Chile. Changes in the British pound sterling, Chilean peso and U.S. dollar to the Canadian dollar exchange rate directly affect the financial performance in Canadian dollars of the Company's U.K. and Chilean operations. The Company hedges its investments in some of its foreign subsidiaries by borrowing funds in the foreign currency or with long-term cross currency swaps and forwards.

The third source of foreign exchange risk, economic risk, is characterized by the risk associated with cash flows from subsidiary companies. To minimize fluctuations in the amount received in British pound sterling dividends from its Hewden subsidiary, Finning has entered into a long term cross currency interest rate swap that fixes the foreign exchange rate on a certain amount of dividends received.

The fourth foreign exchange risk is competitive risk. This is where the currency of the competing firms continues to depreciate against the currency that the Company sources its inventory. For example, if the US dollar appreciates against the Canadian dollar and if the Company's competitors source their inventory in Canada, the Company's price to the customers will have to increase if margins are to be maintained even as the competitors' prices remain the same. There is a similar risk to the U.K. operations should the British pound sterling strengthen especially against the Euro.

The Company's sales are also indirectly affected by fluctuations in commodity prices. In Canada, commodity price movements in the forestry, metals and petroleum sectors can have an impact on customers' demands for equipment and customer service. In Chile, significant fluctuations in the price of copper and gold can have similar effects. In the U.K., lower prices for thermal coal may reduce equipment demand in that sector.

Interest rate risk arises from potential changes in interest rates and the impact on the Company's cost of borrowing. Floating rate debt exposes the Company to increases in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon the debt's maturity. The Company minimizes interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio. The Company utilizes financial instruments to adjust the balance of fixed and floating rate debt, and to reduce its overall cost of borrowing.

#### MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The Consolidated Financial Statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgement of all information available up to January 28, 2003.

The Company maintains an accounting system and related controls to provide management with reasonable assurance that transactions are executed and recorded in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are reliable for preparation of financial statements.

The Company's independent auditors express an opinion as to whether management's financial statements present fairly the Company's financial position, operating results and cash flow in accordance with Canadian generally accepted accounting principles.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with financial officers of the Company and the external auditors to review internal accounting controls, risk management, audit results, quarterly financial results and accounting principles and practices. In addition, the Audit Committee reports its findings to the Board of Directors which reviews and approves the Consolidated Financial Statements contained in this Annual Report.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to Consolidated Financial Statements. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.



R. T. Mahler  
Executive Vice President and Chief Financial Officer

January 28, 2003  
Vancouver, BC Canada

#### AUDITOR'S REPORT

To the Shareholders of Finning International Inc.:

We have audited the consolidated balance sheet of Finning International Inc. (a Canadian corporation) as at December 31, 2002 and the consolidated statements of income and retained earnings and cash flow for the year then ended. These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Consolidated Financial Statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

The Consolidated Financial Statements as at December 31, 2001 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on these statements in their report dated January 30, 2002.



DELOITTE & TOUCHE LLP, Chartered Accountants

January 28, 2003  
Vancouver, BC Canada



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31

(C\$ thousands)

|   | 2002         | 2001         |
|---|--------------|--------------|
| <b>ASSETS</b>   |              |              |
| <b>Current assets</b>                                 |              |              |
| Accounts receivable and other                         | \$ 641,847   | \$ 513,599   |
| Inventories   |              |              |
| On-hand equipment                                     | 402,316      | 418,672      |
| Parts and supplies                                    | 248,093      | 237,557      |
| Current portion of instalment notes receivable        | 13,926       | 67,350       |
| Total current assets                                  | 1,306,182    | 1,237,178    |
| Finance assets  |              |              |
| Instalment notes receivable                           | 13,410       | 70,468       |
| Equipment leased to customers (Note 3)                | 197,115      | 233,375      |
| Total finance assets                                  | 210,525      | 303,843      |
| Rental equipment (Note 4)                             | 897,891      | 776,832      |
| Land, buildings and equipment (Note 5)                | 263,088      | 312,359      |
| Future income taxes (Note 15)                         | 12,030       | 2,825        |
| Goodwill (Note 7)                                     | 379,866      | 405,744      |
|   | \$ 3,069,582 | \$ 3,038,781 |
| <b>LIABILITIES</b>                                    |              |              |
| <b>Current liabilities</b>                            |              |              |
| Short-term debt (Note 8)                              | \$ 223,514   | \$ 372,360   |
| Accounts payable and accruals                         | 849,261      | 758,009      |
| Income tax payable                                    | 39,068       | 11,364       |
| Current portion of long-term debt (Note 8)            | 42,324       | 132,986      |
| Total current liabilities                             | 1,154,167    | 1,274,719    |
| Long-term debt (Note 8)                               | 514,051      | 540,756      |
| Future income taxes (Note 15)                         | 46,004       | 22,443       |
| Total liabilities                                     | 1,714,222    | 1,837,918    |
| MINORITY CONTROLLING INTERESTS (Note 10)              | 425,000      | 425,000      |
| <b>SHAREHOLDERS' EQUITY</b>                           |              |              |
| Share capital (Note 11)                               | 233,450      | 212,122      |
| Retained earnings                                     | 699,741      | 590,588      |
| Cumulative currency translation adjustments (Note 12) | (2,831)      | (26,847)     |
| Total shareholders' equity                            | 930,360      | 775,863      |
|   | \$ 3,069,582 | \$ 3,038,781 |

Approved by the Directors:



D.W.G. Whitehead, Director



C.A. Pinette, Director

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

# CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31  
(C\$ thousands except per share amounts)

|   | 2002       | 2001       |
|---|------------|------------|
| Revenue   |            |            |
| New mobile equipment  | \$ 825,301 | \$ 896,466 |
| New power & energy systems  | 192,036    | 238,287    |
| Used equipment  | 329,661    | 355,733    |
| Equipment rental  | 744,506    | 691,202    |
| Operating leases  | 87,610     | 95,715     |
| Customer support services   | 1,019,184  | 956,313    |
| Finance and other   | 9,188      | 13,327     |
| Total revenue   | 3,207,486  | 3,247,043  |
| Cost of sales   | 2,247,760  | 2,342,308  |
| Gross profit  | 959,726    | 904,735    |
| Selling, general and administrative expenses  | 687,523    | 634,939    |
| Other expenses (income) (Note 13)   | (5,580)    | 18,226     |
| Income before interest, income taxes, non-controlling interests<br>and amortization of goodwill     | 277,783    | 251,570    |
| Finance cost and interest on other indebtedness (Notes 8 and 9)                                     | 79,828     | 85,550     |
| Income before provision for income taxes, non-controlling interests<br>and amortization of goodwill | 197,955    | 166,020    |
| Provision for income taxes (Note 15)  | 47,730     | 29,021     |
| Non-controlling interests (Note 10)   | 17,972     | 23,113     |
| Amortization of goodwill (Note 7)   | —          | 9,969      |
| Net income  | \$ 132,253 | \$ 103,917 |
| Retained earnings, beginning of year  | \$ 590,588 | \$ 521,569 |
| Net income  | 132,253    | 103,917    |
| Dividends on common shares  | (23,100)   | (15,155)   |
| Premium on common share repurchase (Note 11)  | —          | (19,743)   |
| Retained earnings, end of year  | \$ 699,741 | \$ 590,588 |
| Earnings per share (Note 17)  |            |            |
| Basic   | \$ 1.72    | \$ 1.37    |
| Diluted   | \$ 1.68    | \$ 1.34    |
| Basic before amortization of goodwill   | \$ 1.72    | \$ 1.50    |
| Diluted before amortization of goodwill   | \$ 1.68    | \$ 1.47    |
| Weighted average number of shares outstanding   | 76,954,609 | 75,854,866 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.



# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

| (C\$ thousands)                                      | 2002       | 2001       |
|--|------------|------------|
| <b>Operating Activities</b>                          |            |            |
| Net income   | \$ 132,253 | \$ 103,917 |
| Add  |            |            |
| Depreciation   | 314,993    | 308,533    |
| Amortization of goodwill                             | -          | 9,969      |
| Future income taxes                                  | 11,227     | (2,943)    |
| Other items  | (5,580)    | (7,634)    |
| Non-controlling interests distribution               | 17,972     | 23,113     |
|  | 470,865    | 434,955    |
| Changes in working capital items                     |            |            |
| Accounts receivable and other                        | (100,944)  | 15,785     |
| Inventories – On-hand equipment                      | 29,472     | (29,665)   |
| Inventories – Parts and supplies                     | (10,954)   | (29,116)   |
| Instalment notes receivable                          | 21,664     | 866        |
| Accounts payable and accruals                        | 41,148     | 65,009     |
| Income taxes   | 21,553     | (12,211)   |
| Cash provided after changes in working capital items | 472,804    | 445,623    |
| Rental equipment, net of disposals                   | (280,116)  | (259,385)  |
| Equipment leased to customers, net of disposals      | (25,625)   | (52,318)   |
| Cash flow from operating activities                  | 167,063    | 133,920    |
| <b>Investing Activities</b>                          |            |            |
| Net cash invested in land, buildings and equipment   | (6,853)    | (22,257)   |
| Divestiture of Hewden Tower Cranes business          | 44,219     | -          |
| Divestiture of Canadian Materials Handling business  | -          | 54,502     |
| Proceeds from Canadian property sale/leaseback       | 77,049     | -          |
| Equity investment                                    | (15,000)   | -          |
| Acquisitions   |            |            |
| Aggregate purchase price                             | (50,308)   | (750,486)  |
| Assumed debt on acquisition of Hewden                | -          | (110,493)  |
| Less: Initial investment in Hewden                   | -          | 218,050    |
| Cash provided by (used for) investing activities     | 49,107     | (610,684)  |
| <b>Financing Activities</b>                          |            |            |
| Repayment of long-term debt                          | (120,768)  | (73,611)   |
| Issue of debenture                                   | -          | 200,000    |
| Cash funding of pension plans                        | (39,682)   | -          |
| Securitization of Canadian accounts receivable       | 30,000     | -          |
| Sales of notes portfolio                             | 88,606     | -          |
| Non-controlling interests                            | -          | 425,000    |
| Non-controlling interests distribution               | (17,972)   | (23,113)   |
| Issue of common shares on exercise of stock options  | 21,328     | 15,459     |
| Repurchase of common shares                          | -          | (23,708)   |
| Dividends paid                                       | (23,100)   | (15,155)   |
| Currency translation adjustments                     | (5,736)    | (2,260)    |
| Cash provided by (used for) financing activities     | (67,324)   | 502,612    |
| Decrease in short-term debt                          | 148,846    | 25,848     |
| Short-term debt at beginning of year                 | 372,360    | 398,208    |
| Short-term debt at end of year                       | \$ 223,514 | \$ 372,360 |
| Cash flows include the following elements            |            |            |
| Interest paid  | \$ 80,563  | \$ 86,148  |
| Income taxes paid                                    | \$ 29,420  | \$ 32,243  |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

December 31, 2002 and 2001 (\$ and £ in thousands, except the number of shares and per share amounts)

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles that require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual amounts could differ from those estimates. The significant accounting policies used in these Consolidated Financial Statements are as follows:

#### Principles of Consolidation

The Consolidated Financial Statements include the accounts of Finning International Inc. ("Finning" or "Company") and its wholly owned subsidiaries. Principal operating subsidiaries include Finning (UK) Ltd, Finning Chile S.A. and Hewden Stuart Plc ("Hewden"). In addition, Finning consolidates the partnership that was formed to fund the acquisition of Hewden.

#### Currency Translation

Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred.

Account balances denominated in foreign currencies are translated into Canadian dollars as follows:

Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet dates and non-monetary items are translated at historical exchange rates.

Exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary liabilities considered to be hedges, in which case the gain or loss is deferred and accounted for in conjunction with the hedged asset.

Financial statements of foreign operations, all considered self-sustaining, are translated into Canadian dollars as follows:

Assets and liabilities are translated using the exchange rates in effect at the balance sheet dates.

Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred.

Unrealized translation gains and losses are deferred and included as a separate component of shareholders' equity. These cumulative currency translation adjustments are recognized in income when there is a reduction in the net investment in the self-sustaining foreign operation.

The Company has hedged some of its investments in foreign subsidiaries by borrowing funds in foreign currency.

Exchange gains or losses arising from the translation of the hedge instruments are accounted for in cumulative currency translation adjustments.

#### Securitization of Trade Receivables

The Company has sold a co-ownership interest in certain present and future accounts receivable in Canada to a securitization trust. These transactions are accounted for as sales to the extent that the Company is considered to have surrendered control over the interest in the accounts receivables and receives proceeds from the trust, other than a beneficial interest in the assets sold. Losses on these transactions are recognized as other expenses and are dependent in part on the previous carrying amount of the receivable interest transferred, which is allocated between the interest sold and the interest by the Company, based on their relative value at the date of the transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable, dilution rates and credit loss ratios. The receivable interest is transferred on a fully serviced basis. The Company recognizes a servicing liability on the date of the transfer and amortizes this liability to income over the expected life of the transferred receivable interest.

#### Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item basis for on-hand equipment. For approximately two-thirds of parts and supplies, cost is determined on a first-in, first-out basis. An average cost basis is used for the remainder.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Instalment Notes Receivables

Instalment notes receivables are recorded net of unearned finance charges.

Equipment Leased to Customers

Depreciation of equipment leased to customers is provided in equal monthly amounts over the terms of the individual leases after recognizing the estimated residual value of each unit at the end of each lease.

Rental Equipment

Rental equipment is recorded at cost, net of accumulated depreciation. Cost is determined on a specific item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight line or on an actual usage basis.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost, net of accumulated depreciation.

Buildings and equipment are depreciated over their estimated useful lives on either a declining balance or straight line basis using the following annual rates:

|                      |           |
|----------------------|-----------|
| Buildings            | 2% – 5%   |
| General equipment    | 20% – 30% |
| Automotive equipment | 25% – 30% |

Revenue Recognition

Revenue recognition, with the exception of cash sales, includes obtaining a written arrangement with the customer, which is in the form of a contract or purchase order, establishing a fixed or determinable sales price with the customer whereby ultimate collection of the revenue is reasonably assured. Revenue is recognized as performance requirements are achieved in accordance with the following:

- a) Revenue from sales of equipment is recognized at the time of shipment of the product to the customer at which time title to the equipment and significant risks of ownership passes to the customer;
- b) Revenue from power and energy systems includes construction contracts with customers that involve the design, installation and assembly of power and energy equipment systems. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed which is based on associated costs incurred;
- c) Revenue from equipment rentals and operating leases is recognized in accordance with the terms of the relevant agreement with the customer, either evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used;
- d) Revenue from customer support services includes sales of parts and servicing of equipment. For sales of parts, revenue is recognized when the part is shipped to the customer or when the part is installed in the customer's equipment. For servicing of equipment, revenue is recognized as the service work is performed. Customer support services are also offered to customers in the form of long-term maintenance and repair contracts. For these contracts, revenue is recognized on a percentage of completion basis proportionate to the service work that has been performed based on the parts and labour service provided. Parts revenue is recognized based on parts list price and service revenue is recognized based on standard billing labour rates. At the completion of the contract, any remaining profit on the contract is recognized as revenue. Any losses estimated during the term of the contract are recognized when identified.

Stock-Based Compensation

The Company has stock option plans and other stock-based compensation plans for directors and certain eligible employees.

The Company follows the intrinsic value method of accounting for stock options. Since the exercise price is set at an amount equal to the weighted average trading price on the day prior to the grant of the stock options, no compensation expense is recognized on the day of the grant. When options are exercised, the proceeds received by the Company are credited to common shares in the consolidated balance sheet.

Changes in the Company's obligations under other stock-based compensation plans, which arise from fluctuations in the market price of the Company's common shares underlying these compensation plans, are recorded in selling, general and administrative expense in the consolidated statement of income with a corresponding accrual in the consolidated balance sheet.

**Employee Benefits**

The Company and its subsidiaries have a number of defined benefit and defined contribution plans providing pension and other benefits to most of its employees in the Canadian, the UK and the Hewden operations. The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets and has adopted the following policies:

*Defined benefit plans:* For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The cost of pensions and other retirement benefits is determined by independent actuaries using the projected benefit method prorated on service and management's best estimates of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

Adjustments arising from plan amendments, changes in assumptions and the excess of net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of the plan assets are amortized on a straight line basis over the expected average remaining service life of the employees covered by the plans.

*Defined contribution plans:* The cost of pension benefits includes the current service cost based on a fixed percentage of member earnings for the year.

**Goodwill**

Prior to January 1, 2002, goodwill acquired on the acquisition of subsidiaries was amortized to income on a straight line basis over 40 years. The Company adopted the provisions of CICA Handbook Section 3062, Goodwill and Other Intangible Assets, beginning on January 1, 2002. Under the new standard, goodwill is no longer amortized. Instead, goodwill is subject to, at a minimum, an annual assessment for impairment by applying a fair-value based test at the reporting unit level. An impairment loss would be recognized to the extent the carrying amount of goodwill exceeds the fair value of goodwill.

**Financial Instruments**

The Company utilizes derivative financial instruments in the management of its foreign currency and interest rate exposures. The Company uses financial instruments such as interest rate swaps, cross-currency swaps, forward exchange contracts and options as hedges against actual assets or liabilities. Derivative financial instruments are always associated with a related risk position. The Company's policy is to utilize derivative financial instruments for hedging purposes only.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company enters into hedges of its foreign currency exposures on foreign currency denominated long-term investments by entering into offsetting forward exchange contracts and cross-currency swap contracts, when it is deemed appropriate. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency long-term investments are accrued under current liabilities on the balance sheet and recognized in the cumulative currency translation account, offsetting the respective translation losses and gains recognized on the underlying foreign currency long-term investments. The forward premium or discount on forward foreign exchange contracts used to hedge foreign currency long-term debt is amortized as an adjustment of interest expense over the term of the forward contract.

The Company also purchases foreign exchange forward contracts to hedge anticipated purchases in foreign currencies and the related accounts payables. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency denominated purchases are recognized as an adjustment of the payable when the purchase is recorded.

The Company has a policy of arranging its financing so that the fixed rate financing offered to its customers on its lease and notes portfolio is matched by fixed rate borrowings. As well, the portfolio is matched on currency and term. To meet this objective, the Company enters into swap agreements, which fix the effective interest rate and currency of the borrowing. The Company also enters into interest rate swaps to manage its fixed and floating interest rate exposure. The Company designates its interest rate hedge agreements as hedges of the underlying debt or asset. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.



Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under current liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Statement of Cash Flow

Short-term debt forms an integral part of the Company's cash management; accordingly, cash flows are represented by changes in short-term debt.

Commitment to Receivables Securitization

Under an agreement dated November 29, 2002, the Company sold a \$30,000 co-ownership interest in a pool of eligible non-interest bearing trade receivables to a multi-seller securitization trust. Under the terms of this agreement, which expires on November 29, 2007, the Company can sell co-ownership interests of up to \$120,000 on a revolving basis. The Company retains a subordinated interest in the cashflows arising from the eligible receivables underlying the trust's co-ownership interest. The trust and its investors do not have recourse to the Company's other assets in the event that obligors fail to pay the underlying receivables when due. Pursuant to the agreement, the Company continues to service the pool of underlying receivables.

As at December 31, 2002, the Company is carrying a retained interest in the transferred receivables in the amount of \$8,200. The servicing liability outstanding is approximately \$40 as at December 31, 2002.

For the year ended December 31, 2002, the Company recognized a pre-tax loss of \$127 relating to these transfers. The Company estimates the fair value of its retained interest and computes the loss on sale using a discounted cash flow model. The key assumptions underlying this model are:

|                               |        |
|-------------------------------|--------|
| Cost of funds                 | 3.095% |
| Weighted average life in days | 36     |
| Average credit loss ratio     | 0.125% |
| Average dilution ratio        | 5.22%  |
| Servicing fee liability       | 2%     |

The impact of an immediate 10 percent and 20 percent adverse change in the average dilution ratio on the current fair value of the retained interest would be reductions of approximately \$311 and \$422 respectively. The sensitivity of the current fair value of the retained interest or residual cash flows to an immediate 10 percent and 20 percent adverse change in each of the remaining assumptions is not significant.

The table below shows certain cash flows received from and paid to the securitization trust, for the year ended December 31, 2002:

|   |          |
|---|----------|
| Proceeds from new securitization                    | \$30,000 |
| Proceeds from revolving reinvestment of collections | \$25,000 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. EQUIPMENT LEASED TO CUSTOMERS

|                               | 2002       | 2001       |
|-------------------------------|------------|------------|
| Cost                          | \$ 309,828 | \$ 385,198 |
| Less accumulated depreciation | (112,713)  | (151,823)  |
|                               | \$ 197,115 | \$ 233,375 |

Depreciation of equipment leased to customers for the year ended December 31, 2002 was \$61,885 (2001: \$67,643).

### 2. RENTAL EQUIPMENT

|                               | 2002         | 2001         |
|-------------------------------|--------------|--------------|
| Cost                          | \$ 1,661,256 | \$ 1,486,025 |
| Less accumulated depreciation | (763,365)    | (709,193)    |
|                               | \$ 897,891   | \$ 776,832   |

Depreciation of rental equipment for the year ended December 31, 2002 was \$223,460 (2001: \$213,798).

### 3. LAND, BUILDINGS AND EQUIPMENT

|                                     | 2002       | 2001       |
|-------------------------------------|------------|------------|
| Land                                | \$ 57,464  | \$ 77,811  |
| Buildings and equipment             | 416,029    | 450,732    |
| Less accumulated depreciation       | (210,405)  | (216,184)  |
|                                     | 205,624    | 234,548    |
| Total land, buildings and equipment | \$ 263,088 | \$ 312,359 |

Depreciation of buildings and equipment for the year ended December 31, 2002 was \$29,648 (2001: \$27,092).

During the first quarter of 2002, the Company sold its interest in various properties in its Canadian operation across Alberta and British Columbia and leased them back for a 20-year term. The total proceeds were \$77,049, resulting in a gain of \$10,281. This gain has been deferred and will be amortized to income over the lease term.

### 4. ACQUISITION OF HEWLEN

On January 26, 2001, the Company completed its acquisition of Hewlen. Hewlen is in the equipment rental and related services business, operating throughout Scotland, England, Wales and Northern Ireland. The results of Hewlen's operations have been included in the Company's Consolidated Financial Statements from January 26, 2001. The purchase of Hewlen was accounted for under the purchase method of accounting. The aggregate purchase price of \$729,111 (including acquisition costs of \$19,700) was paid in cash. Goodwill arising on the acquisition was amortized on a straight-line basis over its estimated useful life of 40 years in 2001. Following the adoption of the new goodwill accounting standards, amortization of goodwill ceased.

The net assets acquired at their fair values comprised the following:

|                      |            |
|----------------------|------------|
| Net assets acquired  | 2001       |
| Total asset          | \$ 704,995 |
| Total liabilities    | 307,968    |
| Net assets acquired  | 397,027    |
| Goodwill             | 332,084    |
| Total purchase price | \$ 729,111 |



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|   | 2002       | 2001       |
|---|------------|------------|
| Goodwill, beginning of year                                     | \$ 429,483 | \$ 77,777  |
| Goodwill on acquisitions during the year                        | 1,483      | 339,069    |
| Reduction in goodwill for purchase price adjustments            | (53,699)   | —          |
| Reduction in goodwill on divestitures during the year           | (8,984)    | (563)      |
| Reduction in goodwill in recognition of future income tax asset | —          | (10,878)   |
| Foreign exchange translation adjustment                         | 35,322     | 24,078     |
| Goodwill, end of year   | 403,605    | 429,483    |
| Accumulated amortization, beginning of year                     | (23,739)   | (13,832)   |
| Amortization for the year                                       | —          | (9,969)    |
| Reduction in accumulated amortization of goodwill               | —          | 62         |
| Accumulated amortization, end of year                           | (23,739)   | (23,739)   |
| Net goodwill  | \$ 379,866 | \$ 405,744 |
| Amortization of goodwill – adoption of section 3062             |            |            |
| Reported net income   | \$ 132,253 | \$ 103,917 |
| Add back: goodwill amortization                                 | —          | 9,969      |
| Adjusted net income   | \$ 132,253 | \$ 113,886 |

During the year, the Company acquired Distribuidora Perkins Chilena SAC (Diperk), an engine and generator set distribution company located in Chile and its complementary service operation in Chile for a net total of \$6,283 with resulting goodwill of \$1,459. The residual value of goodwill acquired was for smaller rental operations in Canada. During 2001, the Company acquired Hewden and several other smaller operations in Canada, the U.K. and Chile for \$760,603 (Hewden \$729,111; others \$31,492). Goodwill on these acquisitions comprised of \$332,084 for Hewden and \$6,985 for other acquisitions.

Upon the acquisition of Hewden, the Company recorded various liabilities and provisions at the date of acquisition based on the preliminary allocation of the purchase price. In 2002, the Company completed its assessment of the final purchase price allocation. The resulting purchase price adjustment reduced goodwill by \$53,699.

During the fourth quarter of 2002, Hewden sold its Tower Cranes business. Tangible assets associated with the business were \$22,000 and the disposal resulted in a reduction of goodwill of \$8,984.

During 2001, the Company adjusted its goodwill by \$10,878 to recognize a previously unrecognized future income tax asset with respect to tax loss carry-forwards resulting from the purchase of Leverton in 1997.

SHORT-TERM AND LONG-TERM DEBT

|  | 2002       | 2001       |
|--|------------|------------|
| Short-term debt:   |            |            |
| Bank indebtedness, commercial paper and other loans (a)  | \$ 223,514 | \$ 372,360 |
| Long-term debt:  |            |            |
| Debentures (b)   |            |            |
| 8.35% due March 22, 2004   | 75,000     | 75,000     |
| 7.75% due November 1, 2004   | 150,000    | 150,000    |
| 6.60% due December 8, 2006   | 75,000     | 75,000     |
| 7.40% due June 19, 2008  | 200,000    | 200,000    |
| Bank term facilities (c)   | —          | 72,032     |
| Bank term facilities denominated in pound sterling (d)   | 38,183     | 92,640     |
| Other unsecured loans denominated in U.S. dollars and Chilean pesos,<br>maturing between 2002 and 2004 | 18,192     | 9,070      |
|  | 556,375    | 673,742    |
| Less current portion of long-term debt   | 42,324     | 132,986    |
| Total long-term debt   | \$ 514,051 | \$ 540,756 |

(a) Bank indebtedness, commercial paper and other loans

The Company has available \$1,111,000 in unsecured short-term credit facilities. Borrowings under the credit facilities are at floating rates of interest at a margin over Canadian dollar bankers' acceptance yields, and U.S. and U.K. LIBOR rates. In addition, the Company has a Canadian commercial paper program for \$300,000 which can be issued against the available credit amount. Other loans include supplier merchandising programs. Included in short-term debt are foreign currency amounts of US \$6,885 (2001: US \$6,000) and £89,584 (2001: £57,429).

(b) Debentures

The Company's debentures are unsecured, and interest is payable semi-annually with principal due on maturity.

(c) Bank term facilities

The Company had available \$75,000 in an unsecured term facility which expired on December 31, 2002. Borrowing under the term facility was at a floating rate of interest, which averaged 2.88% in 2002 (2001: 5.18%).

(d) Bank term facilities denominated in pound sterling

The Company has an unsecured £15,000 floating rate loan at an average interest rate of 4.44% (2001: 5.75%), maturing May 25, 2003. During the year, a £25,000 fixed rate loan at an interest rate of 7.675% matured.

Covenants

The Company is required to meet various covenants with respect to its debt facilities. As at December 31, 2002, the Company is in compliance with these covenants.

Long-Term Debt Repayments

Principal repayments on long-term debt in each of the next five years and thereafter are as follows:

|            |            |
|------------|------------|
| 2003       | \$ 42,324  |
| 2004       | 227,834    |
| 2005       | 11,217     |
| 2006       | 75,000     |
| 2007       | —          |
| Thereafter | 200,000    |
|            | \$ 556,375 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Finance Cost and Interest

Finance cost and interest on other indebtedness as shown on the consolidated statement of income is comprised of the following elements:

|   | 2002      | 2001      |
|---|-----------|-----------|
| Interest on debt securities:                                |           |           |
| Debentures  | \$ 37,637 | \$ 30,744 |
| Bank indebtedness, commercial paper and other loans         | 14,267    | 33,432    |
| Bank term facilities  | 5,440     | 13,175    |
|   | 57,344    | 77,351    |
| Interest on swap contract                                   | 18,127    | 4,107     |
| Amortization of deferred financing costs and other expenses | 4,357     | 4,092     |
|   | \$ 79,828 | \$ 85,550 |

Interest expense includes interest on debt incurred for a term greater than one year of \$43,077 (2001: \$41,468).

# FINANCIAL INSTRUMENTS

The Company is subject to various financial risks including interest rate risk and foreign exchange risk. To manage this risk, the Company uses interest rate swaps, cross-currency swaps, forward exchange contracts and options as hedges against actual assets or liabilities.

The following interest rate contracts and foreign currency contracts were in place at December 31, 2002 and 2001:

|  | Notional Value | Interest Rates                 |          | Term to Maturity | Fair Value Fav/(Unfav) |
|--|----------------|--------------------------------|----------|------------------|------------------------|
| 2002                                   |                | Fixed                          | Floating |                  |                        |
| Fixed/Floating Interest Rate Swaps:    |                |                                |          |                  |                        |
| a) Canadian \$ pay fixed (1)           | \$ 39,679      | 5.06%                          | 2.07%    | 1 to 6 years     | \$ (926)               |
| b) British pound sterling £ pay fixed  | £ 100,000      | 5.50%                          | 4.02%    | 10 years         | \$ (14,028)            |
| Cross-Currency Interest Rate Swap (2): |                |                                |          |                  |                        |
| a) Buy Canadian \$ (against £228,000)  | \$ 498,849     | 8.33%                          | 4.57%    | n/a              | \$ (111,965)           |
| Forward Foreign Exchange Contracts:    |                |                                |          |                  |                        |
|  | Notional Value | Weighted Average Exchange Rate |          | Term to Maturity | Fair Value Fav/(Unfav) |
| a) Buy US \$ (against Canadian \$)     | US\$ 99,088    | 1.5783                         |          | 1 to 2 years     | \$ 129                 |
| b) Sell £ (against Canadian \$) (3)    | £ 95,560       | 2.1491                         |          | n/a              | \$ (29,644)            |
| 2001                                   |                |                                |          |                  |                        |
|  | Notional Value | Interest Rates                 |          | Term to Maturity | Fair Value Fav/(Unfav) |
|  |                | Fixed                          | Floating |                  |                        |
| Fixed/Floating Interest Rate Swaps:    |                |                                |          |                  |                        |
| a) Canadian \$ receive fixed           | \$ 225,000     | 7.37%                          | 5.24%    | 2 to 5 years     | \$ (1,326)             |
| b) Canadian \$ pay fixed               | £ 74,389       | 5.05%                          | 2.09%    | 1 to 6 years     | \$ (1,561)             |
| Cross-Currency Interest Rate Swap:     |                |                                |          |                  |                        |
| a) Buy Canadian \$ (against £228,000)  | \$ 498,849     | 8.33%                          | 4.59%    | n/a              | \$ (39,118)            |
| Forward Foreign Exchange Contracts:    |                |                                |          |                  |                        |
|  | Notional Value | Weighted Average Exchange Rate |          | Term to Maturity | Fair Value Fav/(Unfav) |
| a) Buy US \$ (against Canadian \$)     | US\$ 71,239    | 1.5787                         |          | 1 to 2 years     | \$ 991                 |
| b) Buy EURO (against £)                | EURO 19,517    | 1.6264                         |          | 1 year           | \$ (107)               |
| b) Sell £ (against Canadian \$)        | £ 95,560       | 2.1491                         |          | n/a              | \$ (4,276)             |

- (1) For the fixed/floating Canadian \$ swaps, the fixed interest rates represent the weighted average interest rates which the Company is contractually committed to pay/receive until the swap matures. The floating interest rates represent the effective interest rates at the balance sheet date and vary over time.
- (2) The interest rate on the cross currency interest rate swap contract is reset in 3 years and has an open maturity date. The contract hedges the Company's investment in Hewden and an amount of British pound sterling cash flows. \$62,164 of the negative fair value, representing the market value of the foreign exchange forward, has been recognized on the balance sheet in current liabilities and offset to currency translation adjustments.
- (3) The forward foreign exchange contract hedges the Company's investment in Hewden. The negative fair value of the contract has been recognized on the balance sheet in current liabilities and offset to currency translation adjustments.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Values

The fair value of financial instruments is determined by reference to quoted market prices for actual or similar instruments, where available, or by estimates derived using present value or other valuation techniques. The estimated fair values of interest rate swaps and foreign exchange contracts are reported above. The fair value of accounts receivable, notes receivable, short-term debt, accounts payable and accruals approximates their recorded values due to the short-term maturities of these instruments. The fair value of the Company's long-term debt is as follows:

|                | 2002       |            | 2001       |            |
|----------------|------------|------------|------------|------------|
|                | Book Value | Fair Value | Book Value | Fair Value |
| Long-Term Debt | \$556,375  | \$590,963  | \$ 673,742 | \$ 692,014 |

Credit Risk

The Company operates internationally as a full service provider (selling, servicing, renting and financing) of heavy equipment and related products. The Company is not dependent on any single customer or group of customers. There is no concentration of credit risk related to the Company's position in trade accounts or notes receivables. Credit risk is minimized because of the diversification of the Company's operations, as well as its large customer base and its geographical dispersion.

The credit risk of the foreign currency contracts and interest rate swap agreements arises from the possibility that the counterparties to the agreements or contracts may default on their obligations; however, the Company does not anticipate such an event to occur. In order to minimize this risk, the Company enters into such agreements only with highly rated financial institutions.

In 2001, the Company formed a partnership with third party private investors to raise capital to fund the acquisition of Hewden. The private investors injected \$425,000 into the partnership in return for a non-controlling partnership interest. A subsidiary of the Company is the general partner in the partnership. The partnership interest is reported as non-controlling interests on the financial statements and distributions on the partnership interest are accounted for as distributions to non-controlling interests. The financial position, results of operations and cash flows of the partnership are consolidated with the Company from its date of inception.

Through their partnership interest, the private investors have a preferred interest in the shares of Hewden ranking in priority to the debt securities issued by the Company. The return to which the private investors are entitled is limited to a quarterly distribution on their partnership interests, which is calculated with reference to Canadian dollar bankers acceptances. The distributions to the non-controlling interests totaled \$17,972 in 2002 (2001: \$23,113). At the end of five years, the yield on the partnership interest will be renegotiated. If no agreement on a new yield is reached, the private investors have the right to sell their partnership interests. The partnership has a maximum life of 75 years but may be liquidated earlier if the partnership and the Company fail to agree on a new yield on the partnership interest and the parties have been unable to arrange a sale of the partnership interest to a new investor. The Company has the option of purchasing the partnership interest held by the private investors throughout the life of the partnership for an amount equal to the capital invested in the partnership interest by the private investors. In the event the Company does not purchase the partnership interest and the partnership is liquidated, the Company will be required to inject funds to a maximum of approximately \$200,000 if the private investors are unable to recover their investment from the sale of the shares of Hewden. The Company's obligation to inject these funds would rank equally with the debt securities.

No return of capital is scheduled during the life of the partnership but a partial return of capital is required in the case of certain sales of assets by Hewden out of the ordinary course of business.

## 10. SHARE CAPITAL

## AUTHORIZED

|           |  |
|-----------|--|
| Unlimited | Preferred shares without par of which 4,400,000 are designated as Cumulative Redeemable Preferred shares |
| Unlimited | Common shares  |

## ISSUED AND OUTSTANDING

## Common Shares

|                             | 2002       |            | 2001        |            |
|-----------------------------|------------|------------|-------------|------------|
|                             | Shares     | Amount     | Shares      | Amount     |
| Balance, beginning of year  | 75,816,263 | \$ 212,122 | 75,790,463  | \$ 200,629 |
| Exercise of stock options   | 1,763,691  | 21.328     | 1,483,100   | 15,459     |
| Repurchase of common shares | -          | -          | (1,457,300) | (3,966)    |
|                             | 77,579,954 | \$ 233,450 | 75,816,263  | \$ 212,122 |

A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar Inc. are fundamental to its business and any change in control must be approved by Caterpillar.

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a permitted bidder, bids to acquire or acquires 20% or more of the Company's common shares. The rights may also be triggered by a third party proposal for merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in April 2005 unless it is reconfirmed by a majority of the votes cast at the meeting.

The plan will not be triggered if a bid meets certain criteria (a permitted bidder). These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the Takeover Bid (voting shares tendered may be withdrawn until taken up and paid for); and
- the Takeover Bid expires not less than 60 days after the date of the bid circular.

## Repurchase of Common Shares

The Company did not repurchase any common shares during 2002 (1,457,300 shares in 2001) as part of normal course issuer bids. In 2001, these shares were repurchased at an average price of \$16.27 for an aggregate cost of \$23,708, which was allocated to reduce share capital by \$3,966 and retained earnings by \$19,743.

## Stock Options

The Company has several stock option plans for employees and directors, the details of which are as follows:

|  | 2002        |                                 | 2001        |                                 |
|--|-------------|---------------------------------|-------------|---------------------------------|
|  | Options     | Weighted average exercise price | Options     | Weighted average exercise price |
| Options outstanding, beginning of year | 6,154,442   | \$ 12.87                        | 6,618,441   | \$ 12.21                        |
| Issued                                 | -           | n/a                             | 1,073,500   | \$ 13.37                        |
| Exercised                              | (1,763,691) | \$ 12.04                        | (1,483,100) | \$ 10.38                        |
| Cancelled                              | (67,533)    | \$ 13.22                        | (54,399)    | \$ 11.09                        |
| Options outstanding, end of year       | 4,323,218   | \$ 13.20                        | 6,154,442   | \$ 12.87                        |
| Exercisable at year-end                | 3,479,990   | \$ 13.22                        | 4,125,978   | \$ 13.05                        |

The following table summarizes information about the stock options outstanding at December 31, 2002:

| Range of exercise prices | Options outstanding |  |                                 | Options exercisable |  |                                 |
|--------------------------|---------------------|--|---------------------------------|---------------------|--|---------------------------------|
|                          | Number outstanding  | Weighted average remaining contractual life (in years) | Weighted average exercise price | Number outstanding  | Weighted average remaining contractual life (in years) | Weighted average exercise price |
| \$ 6 – \$ 9              | 24,328              | 0.3  | \$ 6.62                         | 24,328              | 0.3  | \$ 6.62                         |
| \$ 9 – \$ 12             | 1,277,800           | 4.1  | \$ 10.42                        | 1,275,134           | 4.1  | \$ 10.42                        |
| \$ 12 – \$ 15            | 1,636,219           | 7.5  | \$ 12.94                        | 795,657             | 7.4  | \$ 12.80                        |
| \$ 15 – \$ 17            | 1,384,871           | 4.2  | \$ 16.17                        | 1,384,871           | 4.2  | \$ 16.17                        |
|                          | 4,323,218           | 5.4  | \$ 13.20                        | 3,479,990           | 4.9  | \$ 13.22                        |

**Other Stock-Based Compensation Plans**

The Company has other stock-based compensation plans in the form of deferred share unit plans and stock appreciation rights plans that use notional units. These notional units, upon vesting, are valued based on the Company's common share price on the Toronto Stock Exchange and are marked to market at the end of each fiscal quarter. Changes in the value of the units as a result of fluctuations in the Company's share price and new issues are recognized in selling, general and administrative expense in the consolidated statement of income with the corresponding liability recorded on the consolidated balance sheet. Details of these plans are as follows:

**Deferred Share Unit Plan A (DSU-A)**

Under the DSU-A Plan, senior executives of the Company may be awarded deferred share units as approved by the Board of Directors. These units are fully vested upon issuance to the executives. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable only following termination of employment and must be redeemed by December 31st of the year following the year in which the termination occurred. As at December 31, 2002 there were 66,740 (2001: 65,930) units outstanding for a total liability of \$1,705 (2001: \$1,318). The total expense charged in the year was \$387 (2001: \$1,318).

**Directors' Deferred Share Unit Plan A (DDSU)**

Under the DDSU Plan, non-employee Directors of the Company may elect to allocate all or a portion of their cash compensation as deferred share units. These units are fully vested upon issuance. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. Units are redeemable only following termination of service on the Board of Directors and must be redeemed by December 31st of the year following the year in which the termination occurred. As at December 31, 2002 there were 95,089 (Dec 2001: 51,320) units outstanding for a total liability of \$2,430 (2001: \$1,027). The total expense charged in the year was \$1,403 (2001: \$806).

**Deferred Share Unit Plan B (DSU-B)**

Under the DSU-B Plan, executives of the Company may be awarded performance based deferred share units as approved by the Board of Directors. This plan utilizes notional units that become vested only at retirement or at specified percentages if the Company's common share price exceeds, at specified levels, the common share price at the date of grant. The specified levels and respective vesting percentages are as follows:

|                  | Common Share Price | Vesting % |
|------------------|--------------------|-----------|
| Grant Price      | \$ 26.05           | 0%        |
| 110% improvement | \$ 28.66           | 25%       |
| 120% improvement | \$ 31.26           | 50%       |
| 130% improvement | \$ 33.87           | 75%       |
| 140% improvement | \$ 36.47           | 100%      |



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The notional units that have not vested within five years to the date that they were granted expire. Only vested units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares. In 2002, the initial year of granting, 275,200 units were granted of which no units were performance vested and 28,050 units were retirement vested, resulting in a total expense charged in the year of \$717.

### Share Appreciation Rights (SAR)

In 2002, awards under the SAR plan were granted to senior managers within Canada and the UK. Under the share appreciation rights plan, awards will be expensed over the vesting periods when the market price of the common shares exceeds the strike price under the plan. Changes, either increases or decreases, in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of compensation for the award and will be amortized over the remaining vesting periods. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash if incremental common share price thresholds are achieved or other performance measures are met.

|  | 2002           |                |
|--|----------------|----------------|
|  | Units          | Amount         |
| Outstanding at the beginning of the year | —              | —              |
| Granted during the year                  | <b>282,500</b> | —              |
| Exercised/cancelled during the year      | —              | —              |
| Outstanding at the end of the year       | <b>282,500</b> | —              |
| Strike price                             |                | <b>\$26.05</b> |
| Exercisable at the end of year           | <b>84,500</b>  | —              |

At the end of 2002, 84,500 units were exercisable, but the common share price was below the grant price of the SAR, resulting in no charge to expense in 2002.

### 12. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS

|                                      | 2002               | 2001        |
|--------------------------------------|--------------------|-------------|
| Balance, beginning of year           | <b>\$ (26,847)</b> | \$ (23,742) |
| Gain realized during the year        | —                  | (746)       |
| Translation adjustments for the year | <b>24,016</b>      | (2,359)     |
| Balance, end of year                 | <b>\$ (2,831)</b>  | \$ (26,847) |

Translation gains or losses on the consolidation of foreign subsidiaries financial statements are accumulated in this account. Translation adjustments arise as a result of fluctuations in foreign currency exchange rates. At December 31, 2002, 2001, and 2000, the Canadian dollar exchange rates against the British pound sterling were 2.5428, 2.3160 and 2.2432 respectively, and the Chilean peso exchange rates against the Canadian dollar were 456, 415 and 382 respectively. The cumulative currency translation adjustment for 2002 resulted from the weakening of the Chilean peso and the strengthening of the British pound sterling against the Canadian dollar.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. OTHER EXPENSES (INCOME)

Other expenses (income) include items shown separately to facilitate comparison with the prior year. The following items are included in other expenses (income):

|  | 2002        | 2001       |
|--|-------------|------------|
| a) Gain on sale of surplus properties in Canada and the U.K.   | \$ (15,216) | \$ (8,725) |
| b) 2002 amortization of deferred gain, and gain on 2001 sale of the Canadian Materials Handling business.        | (1,600)     | (3,571)    |
| c) Costs incurred on DBSi business process reengineering project   | 10,264      | —          |
| d) Loss from equity investment   | 972         | —          |
| e) Loss on sale of non-core business   | —           | 2,500      |
| f) Donation of headquarter property located at Vancouver, Canada to post secondary educational institutions      | —           | 33,787     |
| g) Gain on donation of property to post secondary educational institutions                                       | —           | (29,503)   |
| h) Restructuring charges   | —           | 24,484     |
| i) Non-operating foreign exchange gain on reduction in the net investment in a self-sustaining foreign operation | —           | (746)      |
|  | (5,580)     | 18,226     |
| Tax (provision) recovery on other expenses (income)  | (952)       | 14,905     |
| Other expenses (income), net of tax  | \$ (4,628)  | \$ 3,321   |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 14. EMPLOYEE BENEFITS

|   | 2002     |          |          |           | 2001     |           |          |           |
|---|----------|----------|----------|-----------|----------|-----------|----------|-----------|
|   | Canada   | UK       | Hewden   | Total     | Canada   | UK        | Hewden   | Total     |
| The expense for the Company's benefit plans, primarily for pension benefits, is as follows: |          |          |          |           |          |           |          |           |
| <b>Defined contribution plans</b>   |          |          |          |           |          |           |          |           |
| Current service cost  | \$ 5,269 | \$ -     | \$ 249   | \$ 5,518  | \$ 4,510 | \$ -      | \$ 164   | \$ 4,674  |
| Net benefit plan expense  | \$ 5,269 | \$ -     | \$ 249   | \$ 5,518  | \$ 4,510 | \$ -      | \$ 164   | \$ 4,674  |
| <b>Defined benefit plans</b>  |          |          |          |           |          |           |          |           |
| Current service cost,   |          |          |          |           |          |           |          |           |
| net of employee contributions   | \$ 4,497 | \$ 8,297 | \$ 3,855 | \$ 16,649 | \$ 4,171 | \$ 10,267 | \$ 3,960 | \$ 18,398 |
| Interest cost   | 14,147   | 17,426   | 8,460    | 40,033    | 13,890   | 15,540    | 7,256    | 36,686    |
| Expected return on plan assets  | (16,461) | (18,245) | (8,450)  | (43,156)  | (16,654) | (19,183)  | (9,118)  | (44,955)  |
| Amortization of past service costs  | 165      | -        | -        | 165       | 165      | -         | -        | 165       |
| Amortization of net actuarial (gain)/loss   | 217      | 1,027    | (117)    | 1,127     | (368)    | -         | (676)    | (1,044)   |
| Amortization of transitional obligation/(asset)   | 1,047    | (1,477)  | 1,889    | 1,459     | 1,144    | (1,295)   | 1,577    | 1,426     |
| Net benefit plan expense  | \$ 3,612 | \$ 7,028 | \$ 5,637 | \$ 16,277 | \$ 2,348 | \$ 5,329  | \$ 2,999 | \$ 10,676 |
| Defined contribution plan expense   | \$ 5,269 | \$ -     | \$ 249   | \$ 5,518  | \$ 4,510 | \$ -      | \$ 164   | \$ 4,674  |
| Defined benefit plan expense  | 3,612    | 7,028    | 5,637    | 16,277    | 2,348    | 5,329     | 2,999    | 10,676    |
| Total   | \$ 8,881 | \$ 7,028 | \$ 5,886 | \$ 21,795 | \$ 6,858 | \$ 5,329  | \$ 3,163 | \$ 15,350 |

Information about the Company's defined benefit plans is as follows:

|                                      | Canada     | UK         | Hewden     | Total      | Canada     | UK         | Hewden     | Total      |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Accrued benefit obligation</b>    |            |            |            |            |            |            |            |            |
| Balance at the beginning of year (1) | \$ 204,063 | \$ 267,412 | \$ 128,531 | \$ 600,006 | \$ 198,363 | \$ 287,076 | \$ 131,414 | \$ 616,853 |
| Current service cost                 | 6,135      | 12,124     | 5,404      | 23,663     | 5,965      | 12,106     | 5,396      | 23,467     |
| Interest cost                        | 14,147     | 17,426     | 8,460      | 40,033     | 13,890     | 15,540     | 7,256      | 36,686     |
| Benefits paid                        | (16,188)   | (8,646)    | (5,645)    | (30,479)   | (11,788)   | (4,348)    | (4,354)    | (20,490)   |
| Actuarial gains                      | 2,244      | 5,625      | 10,006     | 17,875     | (2,367)    | (51,198)   | (11,181)   | (64,746)   |
| Foreign exchange rate changes        | -          | 26,187     | 12,586     | 38,773     | -          | 8,236      | -          | 8,236      |
| Plan amendments                      | 1,766      | -          | -          | 1,766      | -          | -          | -          | -          |
| Balance at the end of year           | \$ 212,167 | \$ 320,128 | \$ 159,342 | \$ 691,637 | \$ 204,063 | \$ 267,412 | \$ 128,531 | \$ 600,006 |

### Plan Assets

|   |            |            |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| Fair value at the beginning of year (1) | \$ 187,314 | \$ 244,801 | \$ 103,155 | \$ 535,270 | \$ 196,527 | \$ 284,591 | \$ 132,709 | \$ 613,827 |
| Actual return on plan assets            | 5,785      | (20,815)   | (4,030)    | (19,060)   | 751        | (49,201)   | (29,392)   | (77,842)   |
| Employer contributions                  | 42,233     | 12,099     | 2,912      | 57,244     | -          | 4,515      | 2,756      | 7,271      |
| Employees' contributions                | 1,638      | 3,827      | 1,549      | 7,014      | 1,824      | 1,839      | 1,436      | 5,099      |
| Benefits paid                           | (16,188)   | (8,646)    | (5,645)    | (30,479)   | (11,788)   | (4,348)    | (4,354)    | (20,490)   |
| Foreign exchange rate changes           | -          | 23,973     | 10,100     | 34,073     | -          | 7,405      | -          | 7,405      |
| Fair value at the end of year           | \$ 220,782 | \$ 255,239 | \$ 108,041 | \$ 584,062 | \$ 187,314 | \$ 244,801 | \$ 103,155 | \$ 535,270 |

(1) The defined benefit plans of Hewden were assumed by the Company on January 26, 2001.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|   | 2002      |            |             |             | 2001        |             |             |            |
|---|-----------|------------|-------------|-------------|-------------|-------------|-------------|------------|
|   | Canada    | UK         | Hewden      | Total       | Canada      | UK          | Hewden      | Total      |
| Funded status – plan surplus/(deficit)                        | \$ 8,615  | \$(64,890) | \$ (51,301) | \$(107,576) | \$ (18,581) | \$ (22,611) | \$ (25,376) | \$(66,568) |
| Unamortized net actuarial loss                                | 26,582    | 87,391     | 28,253      | 142,226     | 15,712      | 39,833      | 5,146       | 60,691     |
| Unamortized past service costs                                | 3,555     | –          | –           | 3,555       | 1,954       | –           | –           | 1,954      |
| Adjustment  | –         | 961        | –           | 961         | –           | 1,397       | –           | 1,397      |
| Unamortized transitional obligation/(asset)                   | 4,068     | (16,243)   | 17,161      | 4,986       | 5,116       | (16,140)    | 17,351      | 6,327      |
| Accrued benefit asset/(liability), net of valuation allowance | \$ 42,820 | \$ 7,219   | \$ (5,887)  | \$ 44,152   | \$ 4,201    | \$ 2,479    | \$ (2,879)  | \$ 3,801   |

Included in the above accrued benefit obligation and fair value of plan assets at the year-end are the following amounts in respect of plans that are not fully funded:

|                              |            |            |            |            |           |            |            |            |
|------------------------------|------------|------------|------------|------------|-----------|------------|------------|------------|
| Accrued benefit obligation   | \$ 171,473 | \$ 320,128 | \$ 159,342 | \$ 650,943 | \$ 25,077 | \$ 267,412 | \$ 122,669 | \$ 415,158 |
| Fair value of plan assets    | 161,596    | 255,239    | 108,041    | 524,876    | 6,294     | 244,801    | 96,542     | 347,637    |
| Funded status – plan deficit | \$ 9,877   | \$ 64,889  | \$ 51,301  | \$ 126,067 | \$ 18,783 | \$ 22,611  | \$ 26,127  | \$ 67,521  |

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

|  |           |      |      |          |      |      |
|--|-----------|------|------|----------|------|------|
| Discount Rate                                    | 7.0%      | 5.8% | 5.8% | 7.0%     | 5.5% | 6.0% |
| Expected long-term rate of return on plan assets | 9.3%      | 7.3% | 7.3% | 8.5%     | 6.8% | 7.5% |
| Rate of compensation increase                    | 3.4%      | 3.2% | 3.5% | 3.4%     | 4.5% | 3.8% |
| Estimated Remaining Service Life (Years)         | 10 – 13.3 | 14   | 13   | 2 – 13.3 | 14   | 13   |

Plan assets include common shares of the Company having a fair value of \$935 at December 31, 2002 (2001: \$920).

### Provision for Income Taxes

|                                      | 2002      | 2001      |
|--------------------------------------|-----------|-----------|
| Current income tax expense           | \$ 36,503 | \$ 31,964 |
| Future income tax expense/(recovery) | 11,227    | (2,943)   |
|                                      | \$ 47,730 | \$ 29,021 |

Reconciliation of the Company's effective income tax rate from statutory Canadian tax rates for the years ended December 31, 2002 and 2001 is as follows:

|   | 2002      | 2001      |
|---|-----------|-----------|
| Combined federal and provincial tax rates                                     | 38.6%     | 41.9%     |
| Provision for income taxes based on the combined federal and provincial rates | \$ 69,473 | \$ 55,715 |
| Increase/(decrease) in provision resulting from:                              |           |           |
| Lower effective rates on the losses/(earnings) of foreign subsidiaries        | (24,411)  | (23,503)  |
| Amortization of goodwill and increase in assigned asset value                 | –         | 763       |
| Large corporation tax   | 2,075     | 2,101     |
| Income not subject to tax   | (2,853)   | (8,598)   |
| Other items   | 3,446     | 2,543     |
| Provision for income taxes  | \$ 47,730 | \$ 29,021 |

**Future Income Tax Asset and Liability**

Temporary differences and tax loss carry-forwards that give rise to future income tax assets and liabilities as at December 31, 2002 and 2001 are described below.

|   | 2002        | 2001        |
|---|-------------|-------------|
| Future income tax assets:                                   |             |             |
| Tax loss carry-forwards and other                           | \$ 12,030   | \$ 2,825    |
| Future income tax liabilities:                              |             |             |
| Capital, rental and leased assets, inventories and reserves | \$ (26,084) | \$ (19,184) |
| Pensions  | (18,043)    | (2,505)     |
| Other   | (1,877)     | (754)       |
|   | \$ (46,004) | \$ (22,443) |

**6. OPERATING LEASES**

Payments due under various operating lease contracts are as follows:

|                   |            |
|-------------------|------------|
| 2003              | \$ 68,376  |
| 2004              | 54,901     |
| 2005              | 46,349     |
| 2006              | 37,078     |
| 2007              | 32,349     |
| 2008 & thereafter | 222,092    |
| Total             | \$ 461,145 |

**17. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing net income available to the shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method.

|  | Income<br>(Numerator) | Shares<br>(Denominator) | Per Share<br>Amount |
|--|-----------------------|-------------------------|---------------------|
| <b>2002</b>  |                       |                         |                     |
| Basic earnings per share:  |                       |                         |                     |
| Income available to common shareholders                            | \$ 132,253            | 76,954,609              | \$ 1.72             |
| Effect of dilutive securities:                                     |                       |                         |                     |
| Stock options  | —                     | 1,984,531               | —                   |
| Diluted earnings per share:  |                       |                         |                     |
| Income available to common shareholders<br>and assumed conversions | \$ 132,253            | 78,939,140              | \$ 1.68             |
| <b>2001</b>  |                       |                         |                     |
| Basic earnings per share:  |                       |                         |                     |
| Income available to common shareholders                            | \$ 103,917            | 75,854,866              | \$ 1.37             |
| Effect of dilutive securities:                                     |                       |                         |                     |
| Stock options  | —                     | 1,507,044               | —                   |
| Diluted earnings per share:  |                       |                         |                     |
| Income available to common shareholders<br>and assumed conversions | \$ 103,917            | 77,361,910              | \$ 1.34             |

## 10. MAJOR SUPPLIERS

The Company distributes and services heavy equipment and related products. The Company has dealership agreements with numerous equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations. Finning has a strong relationship with Caterpillar that has been ongoing since 1933.

## 11. ECONOMIC DEPENDENCY

The Company and its subsidiaries have operated primarily in one industry during the year, that being the selling, servicing, renting and financing of heavy equipment and related products.

Operating units are as follows:

- Canadian operations: British Columbia, Alberta, most of the Northwest Territories and the Yukon.
- UK operations: England, Scotland, Wales, Falkland Islands and the Channel Islands.
- Chilean operations: throughout the country.
- Hewden operations: Equipment rental in the U.K.
- Other operations: corporate head office. 2001 included Universal Machinery Services operations.

The reportable operating segments are:

| 2002  | Canada       | UK         | Chile      | Hewden       | Other      | Consolidated |
|---|--------------|------------|------------|--------------|------------|--------------|
| Revenue from external sources                   | \$ 1,269,275 | \$ 828,246 | \$ 444,644 | \$ 665,266   | \$ 55      | \$ 3,207,486 |
| Operating costs                                 | 1,021,205    | 752,861    | 388,075    | 443,665      | 14,484     | 2,620,290    |
| Depreciation                                    | 135,134      | 26,073     | 11,726     | 142,060      | -          | 314,993      |
| Other expenses (income)                         |              |            |            |              | (5,580)    | (5,580)      |
| Earnings before interest and tax                | \$ 112,936   | \$ 49,312  | \$ 44,843  | \$ 79,541    | \$ (8,849) | \$ 277,783   |
| Finance cost and interest on other indebtedness |              |            |            |              |            | 79,828       |
| Non-controlling interests                       |              |            |            |              |            | 17,972       |
| Provision for income taxes                      |              |            |            |              |            | 47,730       |
| Net income                                      |              |            |            |              |            | \$ 132,253   |
| Identifiable assets                             | \$ 1,067,196 | \$ 492,896 | \$ 323,105 | \$ 1,148,219 | \$ 38,166  | \$ 3,069,582 |
| Gross capital expenditures                      | \$ 18,197    | \$ 7,040   | \$ 7,151   | \$ 15,038    | \$ -       | \$ 47,426    |

| 2001  | Canada       | UK         | Chile      | Hewden       | Other       | Consolidated |
|---|--------------|------------|------------|--------------|-------------|--------------|
| Revenue from external sources                   | \$ 1,398,623 | \$ 804,084 | \$ 448,005 | \$ 587,482   | \$ 8,849    | \$ 3,247,043 |
| Operating costs                                 | 1,114,242    | 748,848    | 399,377    | 380,677      | 25,570      | 2,668,714    |
| Depreciation                                    | 151,438      | 22,113     | 9,950      | 125,032      | -           | 308,533      |
| Amortization of goodwill                        | 1,082        | 1,035      | -          | 7,852        | -           | 9,969        |
| Other expenses (income)                         |              |            |            |              | 18,226      | 18,226       |
| Earnings before interest and tax                | \$ 131,861   | \$ 32,088  | \$ 38,678  | \$ 73,921    | \$ (34,947) | \$ 241,601   |
| Finance cost and interest on other indebtedness |              |            |            |              |             | 85,550       |
| Non-controlling interests                       |              |            |            |              |             | 23,113       |
| Provision for income taxes                      |              |            |            |              |             | 29,021       |
| Net income                                      |              |            |            |              |             | \$ 103,917   |
| Identifiable assets                             | \$ 1,301,166 | \$ 420,135 | \$ 237,761 | \$ 1,079,719 | \$ -        | \$ 3,038,781 |
| Gross capital expenditures                      | \$ 19,514    | \$ 6,443   | \$ 5,071   | \$ 20,152    | \$ -        | \$ 51,180    |



**20. SUBSEQUENT EVENT**

Subsequent to the year-end, the Company closed the acquisitions of MacroSA Del Plata S.A. and General Machinery Co S.A., the Caterpillar dealerships in Argentina and Uruguay, respectively. The purchase price of \$40,765 for the shares of these companies was funded through debt. The sellers are also entitled to additional future consideration, to a maximum of \$30,000, based on realization of certain performance criteria for these operations. The purchase price allocations for these acquisitions have not been finalized. These acquisitions are effective January 1, 2003.

# TEN-YEAR FINANCIAL SUMMARY

Years ended December 31 (\$ in thousands except per share data)

|  | 2002         | 2001      | 2000      |
|--|--------------|-----------|-----------|
| Revenue  |              |           |           |
| Canadian operations  | \$ 1,269,275 | 1,398,623 | 1,214,516 |
| UK operations  | \$ 828,246   | 804,084   | 682,162   |
| Chilean operations   | \$ 444,644   | 448,005   | 474,145   |
| Hewden operations  | \$ 665,266   | 587,482   | —         |
| International operations   | \$ 55        | 8,849     | 89,209    |
| Total consolidated   | \$ 3,207,486 | 3,247,043 | 2,460,032 |
| Earnings before interest and taxes   | \$ 277,783   | 241,601   | 165,263   |
| As a percent of revenue  | 8.7%         | 7.4%      | 6.7%      |
| Net income   | \$ 132,253   | 103,917   | 73,391    |
| As a percent of revenue  | 4.1%         | 3.2%      | 3.0%      |
| Earnings Per Common Share  |              |           |           |
| Basic  | \$ 1.72      | 1.37      | 0.95      |
| Diluted (2)  | \$ 1.68      | 1.34      | 0.94      |
| Dividends  |              |           |           |
| Total common share   | 23,100       | 15,155    | 15,452    |
| Per common share   | \$ 0.30      | 0.20      | 0.20      |
| Cash flow after working capital changes                                    | \$ 472,804   | 445,623   | 357,780   |
| Cash flow per share  | \$ 6.09      | 5.88      | 4.72      |
| Gross capital expenditures   | \$ 47,426    | 51,180    | 15,037    |
| Ratios   |              |           |           |
| Asset turnover ratio   | 1.05         | 1.25      | 1.18      |
| Debt to equity (3)   | 0.58:1       | 0.87:1    | 1.04:1    |
| Liabilities to equity (3)  | 1.23:1       | 1.53:1    | 1.75:1    |
| Operating debt to equity (excluding finance and rental activities (1) (3)) | (0.18):1     | 0.21:1    | 0.20:1    |
| Book value per common share  | \$ 11.99     | 10.23     | 9.02      |
| Return on average shareholders' equity                                     | 15.7%        | 14.1%     | 10.5%     |
| Common Share Price   |              |           |           |
| High   | \$ 28.85     | 20.35     | 13.85     |
| Low  | \$ 19.65     | 12.10     | 9.85      |
| Common shares outstanding (thousands)                                      | 77,580       | 75,816    | 75,790    |
| Revenue per employee   | \$ 327,462   | 331,230   | 477,120   |
| Net income per employee  | \$ 13,502    | 10,601    | 14,234    |
| Number of Employees  |              |           |           |
| Canada   | 2,548        | 2,629     | 2,326     |
| UK   | 1,578        | 1,553     | 1,404     |
| Chile  | 1,817        | 1,516     | 1,390     |
| Hewden   | 3,813        | 4,066     | —         |
| International  | 39           | 39        | 36        |
| Total  | 9,795        | 9,803     | 5,156     |

Financial data has been restated to incorporate common share subdivision occurring during the ten-year period.

1. Assumes a debt to equity ratio of 7:1 in the finance operations and 5:1 in the rental operation.
2. In 2000, the diluted earnings per share calculation was changed to reflect the dilutive effect of exercising outstanding

# TEN-YEAR FINANCIAL SUMMARY

| 1999      | 1998      | 1997      | 1996      | 1995      | 1994      | 1993      |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1,032,922 | 1,136,917 | 1,146,406 | 926,653   | 923,275   | 838,680   | 675,490   |
| 712,941   | 793,020   | 565,376   | 437,949   | 416,034   | 338,499   | 258,235   |
| 377,777   | 503,505   | 514,068   | 408,616   | 350,650   | 241,221   | 74,464    |
| -         | -         | -         | -         | -         | -         | -         |
| 106,221   | 151,979   | 101,214   | 101,491   | 62,032    | 39,138    | 34,768    |
| 2,229,861 | 2,585,421 | 2,327,064 | 1,874,709 | 1,751,991 | 1,457,538 | 1,042,957 |
| 148,912   | 82,729    | 216,625   | 188,404   | 174,397   | 136,748   | 71,305    |
| 6.7%      | 3.2%      | 9.3%      | 10.0%     | 10.0%     | 9.4%      | 6.8%      |
| 59,600    | 3,185     | 103,695   | 88,184    | 77,493    | 61,421    | 22,271    |
| 2.7%      | 0.1%      | 4.5%      | 4.7%      | 4.4%      | 4.2%      | 2.1%      |
| 0.75      | 0.04      | 1.32      | 1.13      | 1.00      | 0.80      | 0.30      |
| 0.74      | 0.04      | 1.27      | 1.09      | 0.98      | 0.78      | 0.30      |
| 15,919    | 15,868    | 15,761    | 15,600    | 15,451    | 9,985     | 6,592     |
| 0.20      | 0.20      | 0.20      | 0.20      | 0.20      | 0.13      | 0.09      |
| 438,232   | 253,891   | 200,397   | 153,887   | 16,341    | 69,735    | 96,738    |
| 5.50      | 3.20      | 2.53      | 1.96      | 0.21      | 0.91      | 1.27      |
| 20,864    | 44,176    | 47,148    | 43,132    | 25,812    | 16,641    | 13,752    |
| 1.05      | 1.13      | 0.99      | 1.04      | 1.09      | 1.06      | 0.95      |
| 1.29:1    | 1.67:1    | 1.66:1    | 1.50:1    | 1.55:1    | 1.35:1    | 1.23:1    |
| 1.90:1    | 2.29:1    | 2.37:1    | 1.97:1    | 2.11:1    | 1.99:1    | 1.80:1    |
| 0.47:1    | 0.97:1    | 0.90:1    | 0.59:1    | 0.61:1    | 0.43:1    | 0.39:1    |
| 8.74      | 8.52      | 8.69      | 7.59      | 6.55      | 5.83      | 5.00      |
| 8.7%      | 0.5%      | 16.2%     | 16.0%     | 16.2%     | 14.8%     | 6.5%      |
| 15.40     | 18.50     | 20.50     | 14.58     | 11.63     | 12.06     | 10.88     |
| 9.00      | 10.25     | 14.43     | 9.75      | 8.63      | 9.19      | 5.88      |
| 79,737    | 79,426    | 79,091    | 78,547    | 77,442    | 77,026    | 76,266    |
| 450,113   | 492,367   | 423,565   | 441,940   | 428,674   | 374,978   | 283,875   |
| 12,031    | 607       | 18,874    | 20,788    | 18,961    | 15,802    | 6,062     |
| 2,271     | 2,494     | 2,496     | 2,269     | 2,228     | 2,124     | 2,025     |
| 1,364     | 1,348     | 1,720     | 925       | 884       | 873       | 863       |
| 1,259     | 1,354     | 1,228     | 1,008     | 941       | 861       | 759       |
| -         | -         | -         | -         | -         | -         | -         |
| 60        | 55        | 50        | 40        | 34        | 29        | 27        |
| 4,954     | 5,251     | 5,494     | 4,242     | 4,087     | 3,887     | 3,674     |

stock options by application of the treasury stock method. Diluted earnings per share for the years ended 1999 to 2002 have been stated using this method.

3. Leverage ratios for the 2000 result did not include the effect of the investment in Hewden Stuart.



## BOARD OF DIRECTORS



**Ricardo Bacarreza**  
*(1, 3)*  
*Santiago, Chile*

President, Proinvest S.A., a financial services company based in Santiago, Chile. Director of several international companies. Previously, an economist at the World Bank in Washington, D.C. and a senior executive of a number of banks and insurance companies in Chile.



**John E. Cleghorn**  
*(5)*  
*Toronto, Ontario*

Chairman of the Board, SNC-Lavalin Group Inc. Director of Canadian Pacific Railways and Nortel Networks. Chancellor of Wilfred Laurier University. Previously, executive positions with several financial institutions, including Chairman and Chief Executive Officer of the Royal Bank of Canada.



**James F. Dinning**  
*1 (chairman), 4*  
*Calgary, Alberta*

Executive Vice President, TransAlta Corporation. Director of Shaw Communications Inc. and Western Financial Group Inc. Previously, 11 years as a member of the Legislative Assembly of Alberta, three cabinet portfolios 1988 to 1997, including Provincial Treasurer.



**Donald S. O'Sullivan**  
*1, 2, 4 (chairman)*  
*Edmonton, Alberta*

President, O'Sullivan Resources Ltd. Director of National Life Assurance Company of Canada Ltd. Previously, ownership and/or executive positions with several companies.



**Conrad A. Pinette**  
*(4)*  
*Vancouver, British Columbia*

Elected Chairman of the Board of the Company in 2000. President and Chief Operating Officer, Lignum Limited, one of Canada's largest, privately-held forest products companies. Trustee of A&W Revenue Royalties Income Fund and Director of TimberWest Forest Corporation.



**Andrew H. Simon, OBE**  
*1, 5 (chairman)*  
*Staffordshire, England*

Director of several companies, including SGL Carbon AG, Kaffee Partner, and Associated British Ports Plc. Previously, Managing Director and Chairman and Chief Executive Officer of Evode Group of Staffordshire, an international specialty chemicals and materials company.

*1 Member, Audit Committee*

*2 Member, Human Resources and Compensation Committee*

*3 Member, Environmental, Health and Safety Committee*

*4 Member, Governance Committee*

*5 Member, Pension Committee*

## BOARD OF DIRECTORS



*Timothy S. Howden*  
2 (chairman), 4  
Marlow, Buckinghamshire,  
England

Director of several companies, including Hyperion Insurance Group, Mahindra-British Telecom SSL Plc, Benchmark Dental Laboratories Ltd. and C Zwetsloot & Sons Ltd. Previously, senior executive positions with several international companies involved in the food and household products distribution industries.



*Nicholas B. Lloyd*  
Vitacura, Chile

President and Chief Executive Officer, Finning South America. Previously, several executive positions with Finning, including Vice Chairman and Managing Director of Finning (UK) Ltd.



*Jefferson J. Mooney*  
(2, 3)  
North Vancouver,  
British Columbia

Chairman and Chief Executive Officer, A&W Food Services of Canada Inc. Director of Cadillac Fairview Corporation Limited. Previously, Chairman of the Business Council of British Columbia.



*Monica E. Sloan*  
(3, 5)  
Calgary, Alberta

Independent Management and Strategy Consultant. Director of Intervera Ltd. and Entx Capital. Previously, executive positions with Kelman Technologies Inc., TELUS Advanced Communications and Novacorp International Consulting.



*Douglas W.G. Whitehead*  
(3)  
West Vancouver, British Columbia

President and Chief Executive Officer of the Company. Director of Ballard Power Systems Inc., BC Gas Ltd., Belcorp Industries Inc. and the Conference Board of Canada. Previously, senior executive positions with Fletcher Challenge Canada, including President and Chief Executive Officer.



*John M. Willson*  
2, 3 (chairman), 4  
Vancouver, British Columbia

Director of Nexen Inc. and Pan American Silver Corporation. Previously, senior executive positions with several companies, including President and Chief Executive Officer of Placer Dome Inc., an international gold mining and production company, and President and Chief Executive Officer of Western Canada Steel Ltd.

CORPORATE OFFICERS

Brian C. Bell  
Executive Vice President, Customer  
Support Services  
Finning International Inc.

Jack A. Carthy  
President, Power Systems  
Finning International Inc.

Anthony R. Guglielmin  
Vice President and Corporate  
Treasurer  
Finning International Inc.

Paul J.C. Jarvis  
Chief Executive  
Hewden Stuart Plc.

Nicholas B. Lloyd  
President and Chief Executive Officer  
Finning South America

Richard T. Mahler  
Executive Vice President and Chief  
Financial Officer  
Finning International Inc.

Stephen Mallett  
Managing Director  
Finning (UK) Ltd.

Conrad A. Pinette  
Chairman of the Board  
Finning International Inc.

Ian M. Reid  
President and Chief Operating Officer  
Finning (Canada)

John T. Struthers  
Corporate Secretary  
Finning International Inc.

Douglas W.G. Whitehead  
President and Chief Executive Officer  
Finning International Inc.





Douglas W.G. Whitehead  
& Conrad A. Pinette

The Board of Directors and management of Finning International Inc. consider good governance to be an important factor in the effective operation of the Company. The Board has overall responsibility for conduct of the business and affairs of the Company and discharges this responsibility both directly and through delegating certain authority to committees of the Board and to senior management of the Company.

The Corporate Governance Committee enhances corporate performance by assessing and making recommendations regarding board effectiveness and by establishing a process for identifying, recruiting, appointing and re-appointing directors and providing for the on-going development of current board members. The Committee monitors the flow of information between the board and management and, where necessary, makes recommendations on improving these lines of communication.

The Audit Committee assists the Board in fulfilling its oversight responsibility to shareholders, potential shareholders, the investment community and others with respect to the Company's financial statements, financial reporting process, systems of internal accounting and financial controls, internal audit function, external auditors' reports and risk assessment and management. The Committee is empowered to investigate any matter, with full access to all books, records, facilities and personnel of the Company. It is also empowered to instruct and retain outside counsel or other experts as required.

The Human Resources and Compensation Committee plans for the continuity of executive officers and other key employees. The committee also reviews the Company's overall executive compensation plan to ensure it is competitive and motivating in order to attract, retain and inspire excellence in the performance of executive officers and other key employees. In all its deliberations, the committee takes into account the cost of executive compensation and the interests of shareholders.

The Environmental, Health and Safety Committee assists, encourages and counsels management to achieve the Company's goal of reducing accidents in the workplace through the adoption, monitoring and enforcement of policies and procedures designed to meet or exceed the Company's environmental, health and safety goals.

The Pension Committee reviews the design and benefits of the Company's pension funds as well as the selection, investment objectives and ongoing performance of the fund manager(s).

Ranked 5th of 270 companies in Canada in October 2002 study in the Globe and Mail Report on Business on corporate governance.

Ranked 3rd best company by Canadian Business Magazine with regard to corporate governance ("Top 25 Best and Worst Boards in Canada" – August 2002).

*The Company's compliance with the Toronto Stock Exchange Corporate Governance Guidelines is highlighted below:*

|  |            |
|--|------------|
| <i>Board responsible for overall stewardship of Company</i>  | <i>Yes</i> |
| <i>Board constituted with majority of unrelated directors</i>  | <i>Yes</i> |
| <i>Relationship of each director disclosed and explained</i>   | <i>Yes</i> |
| <i>Corporate Governance committee constituted with non-management directors</i>                                      | <i>Yes</i> |
| <i>Process implemented to assess Board effectiveness</i>   | <i>Yes</i> |
| <i>Orientation and education program provided for new directors</i>  | <i>Yes</i> |
| <i>Board size reviewed for effective decision-making</i>   | <i>Yes</i> |
| <i>Directors compensation reflective of risk and responsibility</i>  | <i>Yes</i> |
| <i>Committees generally composed of non-management directors</i>   | <i>Yes</i> |
| <i>Committee assigned to supervise corporate governance</i>  | <i>Yes</i> |
| <i>Limits to management responsibilities defined</i>   | <i>Yes</i> |
| <i>Board functions independently of management</i>   | <i>Yes</i> |
| <i>Audit Committee composed only of unrelated directors and has direct communication with the Company's auditors</i> | <i>Yes</i> |
| <i>System implemented for Board to engage outside advisors</i>   | <i>Yes</i> |

SHAREHOLDER INFORMATION

COMMON SHARES

The common shares of Finning International Inc. are listed on the Toronto Stock Exchange. Symbol: FTT

ACCOUNTING

**Deloitte & Touche LLP**  
Vancouver, Canada

LEGAL COUNSEL

**Borden Ladner Gervais LLP, Barristers and Solicitors**  
Vancouver, Canada

TRANSFER AGENT

Suite 1000 - 666 Burrard Street  
Vancouver, Canada V6C 2X8  
Telephone: 604-691-6444

ANNUAL MEETING

The Annual General Meeting of shareholders will be held at 11:00 a.m., April 24, 2003 at the Fairmont Waterfront Hotel in Vancouver.

ANNUAL INFORMATION

The Company prepares an Annual Information Form (AIF), which is filed with the securities commission or similar bodies in all of the provinces of Canada. Copies of the AIF and Annual and Quarterly Reports are available to shareholders and other interested parties on request or can be accessed directly from Finning's website at [www.finning.com](http://www.finning.com)

SECURITIES TRANSFER AGENT

**Computershare Trust Company of Canada**

To contact the stock transfer agent nearest to your location see listing to the right.

INQUIRIES

Inquiries relating to shares or dividends should be directed to the Company's Registrar and Transfer Agent. Inquiries relating to the Company's operating activities and financial information should be directed to Anthony R. Guglielmin, Vice President and Corporate Treasurer, Telephone 604-331-4937, Fax 604-331-4899, email: [aguglielmin@finning.ca](mailto:aguglielmin@finning.ca)

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements and information, which reflect the current view of Finning International Inc. with respect to future events and financial performance. Any such forward-looking statements are subject to risks and uncertainties and Finning's actual results of operations could differ materially from historical results or current expectations.

COMPUTERSHARE  
TRUST COMPANY  
OF CANADA

**Halifax**

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Halifax, Nova Scotia B3J 3S9  
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**Montreal**

Computershare  
1800 McGill College Avenue.,  
6th Floor  
Montreal, Quebec H3A 3K9  
Tel: 1-800-564-6253  
Fax: 514-982-7635

**Toronto**

Computershare  
100 University Avenue,  
11th Floor  
Toronto, Ontario M5J 2Y1  
Tel: 1-800-663-9097  
Fax: 416-981-9507

**Calgary**

Computershare  
530 - 8th Ave. S.W., Ste. 600  
Calgary, Alberta T2P 3S8  
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**Vancouver**

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510 Burrard St., 2nd Floor  
Vancouver, B.C. V6C 3B9  
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Fax: 604-661-9480

**Website:**

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**email:**  
[caregistryinfo@computershare.com](mailto:caregistryinfo@computershare.com)





Helicopter lifts a section of a TK1162 forest harvesting machine and flies it to a mountainous logging site for reassembly near Powell Lake, British Columbia. Finning played a key role in developing the machine designed and built for Caterpillar.









